



**Amanda Putri Pratiwi<sup>1</sup>, Arif Muanas<sup>2</sup>**

Universitas Islam Negeri Raden Mas Said Surakarta<sup>12</sup>

Email : amandap8820@gmail.com<sup>1</sup>, arif.muanas@staff.uinsaid.ac.id<sup>2</sup>

## ABSTRACT

*The Micro, Small, and Medium Enterprises (MSMEs) have a strategic role in the Indonesian economy, especially in reducing unemployment rates. However, the significant growth in the number of MSMEs poses challenges in increasingly tight business competition. This study aims to analyze the effect of product innovation on MSME income and the role of digital payment and digital marketing in strengthening this relationship. The research method used is a quantitative approach with data collection techniques through questionnaires distributed to 152 MSME actors in Surakarta City. Data analysis was carried out using multiple linear regression and moderated regression with IBM SPSS Statistics 23. The results of the study showed that product innovation has a positive and significant effect on MSME income. In addition, digital payment and digital marketing also strengthen the relationship between product innovation and MSME income. These findings indicate that product innovation strategies combined with the use of digital technology can increase the competitiveness and growth of MSME income.*

*Keywords: Product Innovation, Digital Payment, Digital Marketing, MSME Income*

## ABSTRAK

Usaha Mikro, Kecil, dan Menengah (UMKM) memiliki peran strategis dalam perekonomian Indonesia, terutama dalam menekan angka pengangguran. Namun, pertumbuhan jumlah UMKM yang signifikan menimbulkan tantangan dalam persaingan bisnis yang semakin ketat. Penelitian ini bertujuan untuk menganalisis pengaruh inovasi produk terhadap pendapatan UMKM dan peran pembayaran digital serta pemasaran digital dalam memperkuat hubungan tersebut. Metode penelitian yang digunakan adalah pendekatan kuantitatif dengan teknik pengumpulan data melalui kuesioner yang disebarluaskan kepada 152 pelaku UMKM di Kota Surakarta. Analisis data dilakukan dengan menggunakan regresi linier berganda dan regresi termoderasi dengan IBM SPSS Statistics 23. Hasil penelitian menunjukkan bahwa inovasi produk berpengaruh positif dan signifikan terhadap pendapatan UMKM. Selain itu, pembayaran digital dan pemasaran digital juga memperkuat hubungan antara inovasi produk dengan pendapatan UMKM. Temuan ini menunjukkan bahwa strategi inovasi produk yang dikombinasikan dengan penggunaan teknologi digital dapat meningkatkan daya saing dan pertumbuhan pendapatan UMKM.

Kata kunci: Inovasi Produk, Pembayaran Digital, Pemasaran Digital, Pendapatan UMKM

## 1. INTRODUCTION



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Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the national economy, particularly in job creation and income distribution. MSMEs contribute more than 60% to the Gross Domestic Product (GDP) in many developing countries, including Indonesia (Ministry of Cooperatives and SMEs, 2022). However, MSMEs often face challenges in enhancing their competitiveness and income due to limited capital, low innovation, and restricted access to digital technology (Tambunan, 2022). In the face of increasingly intense competition, product innovation is one of the key strategies that can be implemented to improve the competitiveness and revenue of MSMEs.

Product innovation provides MSMEs with opportunities to create added value, meet ever-changing market demands, and enhance customer satisfaction (Udriyah et al., 2019). Schumpeter (1934), in his innovation theory, explained that product innovation is a primary driver of economic growth, where companies that continuously innovate will achieve sustainable competitive advantages. Studies by Utami & Syahbudi (2022) and Rafidah (2019) have shown a positive and significant relationship between product innovation and business income. Meanwhile, research conducted by Rukaiyah et al. (2024) indicates a negative and insignificant effect of product innovation on business income.

However, product innovation alone is not sufficient to ensure increased MSME revenue, especially in today's digital era. Digitalization has transformed business operations, making the adoption of digital payment and digital marketing increasingly important. Digital payment systems such as e-wallets, mobile banking, and QR code payments facilitate transactions, reduce reliance on cash, and enhance customer trust in businesses (Najib & Fahma, 2020). Several studies have shown that digital payment adoption can improve business efficiency, accelerate cash flow, and boost MSME revenue (Bongomin et al., 2020). For instance, research by Putri et al. (2022) demonstrated a positive correlation between digital payment and MSME income. However, Fatihah et al. (2024) found a negative impact of digital payment on MSME revenue.

In addition to digital payment, digital marketing also plays a crucial role in supporting MSME growth. Digital marketing offers MSMEs opportunities to promote their products more broadly, efficiently, and effectively through digital platforms such as social media, e-commerce, and websites (Risdwiyanto et al., 2023). With the right digital marketing strategy, MSMEs can reach a wider market, enhance customer engagement, and ultimately increase sales. Studies conducted by Ramida et al. (2022) and Irani et al. (2024) yielded similar results, showing a positive and significant influence of digital marketing on MSME revenue. Conversely, research by Kurniawati & Yuliati (2020) indicated a negative and insignificant impact of digital marketing on MSME sales volume in Semarang City.

From the perspective of the Resource-Based View (RBV) theory, a business's competitive advantage depends on how well it manages and utilizes its resources, including innovation and digital technology (Barney et al., 2001). By implementing product innovation supported by digital marketing and digital payment strategies, MSMEs can more effectively increase their revenue. Within the RBV framework, digital marketing and digital payment can be seen as strategic resources that reinforce the impact of product innovation on MSME business performance.

This study aims to bridge the gap in the literature by analyzing product innovation strategies for increasing MSME revenue while also examining the role of digital payment and digital marketing as moderating variables in this relationship. By understanding how these factors interact, this research can provide new insights into digital-based business strategies for MSMEs. The findings of this study are expected to contribute not only to the development of innovation and digital marketing theories but also to offer practical recommendations for MSMEs in optimizing their business strategies in the digital era. By integrating product innovation with digital marketing strategies and digital payment



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adoption, MSMEs can better prepare for global competition and achieve sustainable revenue growth.

## **2. THEORETICAL FRAMEWORK AND HYPOTHESIS**

### **Revenue**

Small and Medium Enterprises (SMEs) are crucial for economic growth, significantly contributing to job creation and local income. Their revenue generation is influenced by various factors, including strategic budgeting, effective revenue management, and external economic conditions (Primayastanto, 2019). Understanding these dynamics is essential for enhancing the financial stability and growth of SMEs. Revenue is defined as the income generated from sales, dividends, and other financial activities (Okeke et al., 2024). The existence of revenue is vital in a business, as it determines the progress and success of the enterprise. SME entrepreneurs must strive to maximize their available resources to increase revenue. Titasari (2024) states that an increase in revenue indicates that a business, along with all the capital invested in it, can generate profit within a specific period.

### **Product Innovation**

Innovation in product development is essential for maintaining a competitive advantage in rapidly changing markets (Almarda & Firdaus, 2024). Innovation is an integral part of business operations, as it serves as the driving force behind a company's growth. Jebril et al. (2024) define product innovation as the process of creating or improving existing products or services. Innovation is not exclusive to large corporations; micro, small, and medium enterprises (MSMEs) must also innovate to enhance their business performance (Dhewanto, 2014). The better MSMEs implement product innovation, the stronger their competitiveness becomes, which positively impacts their revenue. This is supported by previous studies, such as those by Rike Selviasari & Sudarmiatin (2024), Mrossou et al. (2024), and Dewantoro et al. (2023), which demonstrate a positive and significant relationship between product innovation and MSME performance.

**H1:** Product innovation has a positive and significant MSME revenue.

### **Digital Payment**

Data from Bank Indonesia shows that the volume of electronic or digital payment transactions has increased year by year. Digital payment refers to payment methods conducted electronically or digitally (Pratama et al., 2023). This trend is driven by the many benefits of electronic (cashless) payment systems for both sellers and buyers. For sellers, financial records become more organized and systematic, minimizing the risk of missing transactions. For buyers, digital payment methods offer various promotions and discounts when purchasing products. Therefore, digital payment systems are employed as a strategy to enhance MSME revenue. Several studies, including those by Sihabudin & Hidayaty (2021), Putri et al. (2022), and Fatma & Ruzikna (2024), have demonstrated a positive relationship between digital payment adoption and MSME revenue.

**H2:** Digital payment has a positive and significant MSME revenue.



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**H3:** Digital payment strengthens the relationship between product innovation and MSME revenue.

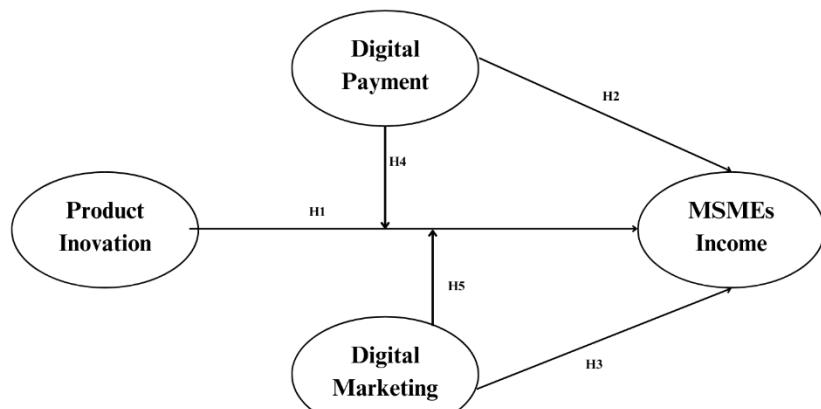
**Digital Marketing**

In the digital era, MSME entrepreneurs are increasingly adopting digital marketing strategies. Digital marketing refers to an interactive and integrated activity that facilitates connections between product or service providers, distribution channels, and potential customers (Ramida et al., 2022). Through digital marketing, potential customers can easily search for and obtain information about products or services through various applications, streamlining the search process and influencing purchasing decisions. Digital marketing plays a crucial role in expanding market reach at a lower cost while improving efficiency, thereby increasing the potential for revenue growth (Risdiyanto et al., 2023). Studies such as those conducted by Ramida et al. (2022), Angelita & Kramadibrata (2024), and Irani et al. (2024) show a positive and significant relationship between digital marketing and MSME revenue. Additionally, research by Nanda & Izmudin (2024) suggests that digital marketing acts as a moderator that strengthens business revenue.

**H4:** Digital marketing has a positive and significant MSME revenue.

**H5:** Digital marketing strengthens the relationship between product innovation and MSME revenue.

Based on the hypotheses outlined above, the conceptual framework of this research can be illustrated as follows:



**Figure 1. Research model**

### 3. RESEARCH METHODS

#### Data Collection Techniques

This study employs a quantitative method to examine the relationships between variables. The data used in this research consists of both primary and secondary data. Primary data is collected through a questionnaire designed using a Likert scale ranging from 1 to 5 to measure the research variables. The questionnaire is distributed both online



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and offline to obtain representative data. Meanwhile, secondary data is obtained from various sources, including scientific journals, books, and articles related to product innovation, digital payment, digital marketing, and MSME revenue growth.

### **Operational Definitions of Variables**

Product Innovation Strategy refers to MSMEs' efforts to develop and update their products to remain competitive. According to Mrosso et al. (2024), product innovation indicators include several aspects, such as improving product quality, modifying product design or functionality, developing product variations, enhancing production processes, and product diversification.

Business digitalization is defined as the adoption of digital technology in MSME operations, including the digitalization of payment systems and the use of electronic media for promotion. According to Daud et al. (2022), digital payment has five key indicators: ease of use, security and user trust, transaction efficiency, availability of digital payment services, and affordable transaction costs.

The use of electronic media for promotion is believed to expand market reach without incurring significant costs (Ramida et al., 2022). According to Risdwiyanto et al. (2023), the indicators of digital marketing include advertising accessibility, informativeness, interactivity, and entertainment value. MSME revenue growth refers to the increase in business income following the implementation of product innovation and business digitalization. According to Gyanwali & Bunchapattanasakda (2019), revenue indicators include increased sales turnover, growth in customer numbers, higher transaction volume across multiple channels, and a rise in net profit.

### **Sample Collection Techniques**

The population in this study consists of all MSME business owners in Surakarta City. The sample includes MSME entrepreneurs in Surakarta who meet specific criteria. A purposive sampling technique was used, where samples were selected based on certain considerations (Sugiyono, 2022). The sample criteria in this study include: MSME entrepreneurs in Surakarta City who offer digital payment options, and MSMEs that use social media for marketing. According to Hair (2010), the minimum sample size should be at least five times the number of indicators studied. Since this study includes 19 indicators, the minimum required sample size is  $5 \times 19 = 95$  samples. A total of 194 samples were successfully collected through online and offline questionnaire distribution

### **Data Analysis Techniques**

Data Analysis in this study was conducted using SPSS software version 23. First, a validity test was performed to measure the accuracy of the research variables, followed by a reliability test to assess data consistency. Next, a classical assumption test was carried out, including: Normality test, Multicollinearity test, and Heteroscedasticity test. Regression analysis was conducted twice: Multiple Linear Regression Analysis and Moderated Regression Analysis (MRA). Hypothesis testing was performed using the t-test, F-test, and the coefficient of determination ( $R^2$  test).

## **4. RESULT AND DISCUSSION**



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**Data Analysis**

The subjects of this study are MSME entrepreneurs in Surakarta City, with statistics on respondent characteristics presented in Table 1.

**Table 1. Descriptive Statistics of Respondents' Demographics**

	Categories	Frequency (N=194)	Percentage (%)
Gender	Male	75	38,66
	Female	119	61,34
Age	<25 years	40	20,62
	25-40 years	105	54,12
	>40 years	49	25,26
Location	Jebres	44	22,68
	Banjarsari	45	23,43
	Laweyan	26	13,26
	Pasar Kliwon	47	24,05
	Serengan	32	16,58
Business Sector	Food & Beverages	115	59,28
		40	20,62
	Fashion	11	5,66
	Ritails	14	7,22
	Handy Craft	14	7,22
	Services		
Annual Turnover	Rp ≤ 2 billions	178	91,75
	Rp > 2 billions	16	8,25
	s.d ≤ 15 billions		
Digital Platform for Marketing	Social Media	164	84,54
	E-mail	9	4,64
	WebSite	21	10,82

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Source : Primary Data Processed (2025)



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Data is considered valid if the calculated r-value is greater than the table r-value. Based on the SPSS calculations processed by the author in the table above, there are 19 statement items, all of which have an r-value greater than the table r-value, indicating that the data is valid.

**Table 2. Validity Test of Variables X, Z1, Z2, and Y**

<b>Questions Item</b>	<b>Calculated R value</b>	<b>R tabel</b>	<b>Description</b>
<b>Product Innovation (X)</b>			
X.1	0.141	0.648	Valid
X.2	0.141	0.649	Valid
X.3	0.141	0.633	Valid
X.4	0.141	0.630	Valid
X.5	0.141	0.636	Valid
<b>Digital Payment (Z1)</b>			
Z1.1	0.141	0.683	Valid
Z1.2	0.141	0.702	Valid
Z1.3	0.141	0.644	Valid
Z1.4	0.141	0.656	Valid
Z1.5	0.141	0.733	Valid
<b>Digital Marketing (Z2)</b>			
Z2.1	0.141	0.641	Valid
Z2.2	0.141	0.668	Valid
Z2.3	0.141	0.687	Valid
Z2.4	0.141	0.661	Valid
<b>MSME Income (Y)</b>			
Y.1	0.141	0.748	Valid
Y.2	0.141	0.698	Valid
Y.3	0.141	0.631	Valid
Y.4	0.141	0.664	Valid
Y.5	0.141	0.688	Valid



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Source:: Primary Data Processed (2025)

Data is considered reliable if it has a Cronbach's Alpha value greater than 0.6. Based on the data above, all four variables have a Cronbach's Alpha value greater than 0.6. indicating that the data is reliable.

**Tabel 3. Reliability Test**

<b>Variabel</b>	<b>Cronbach's Alpha</b>	<b>Critical Value</b>	<b>Description</b>
Product Innovation	0.675	0.6	Reliabel
Digital Payment	0.684	0.6	Reliabel
Digital Marketing	0.664	0.6	Reliabel
MSME Income	0.752	0.6	Reliabel

Source : Primary Data Processed (2025)

The results of the Kolmogorov-Smirnov test show that all models have a significance value above 0.05, indicating that the data is normally distributed. The results of the multicollinearity test are assessed based on the tolerance value and VIF value, as shown in the following table:

**Tabel 4. Multikolinearitas Test**

<b>Model</b>	<b>Colinearity Statistics</b>	
	<b>Tolerance</b>	<b>VIF</b>
X	0.474	2.110
Z1	0.561	1.782
Z2	0.545	1.836
X_Z1	0.170	5.872
X_Z2	0.167	5.975

Source : Primary Data Processed (2025)

From the table, the model used has a tolerance value  $> 0.01$  and a VIF value  $< 10$ , indicating that the model in this study is free from multicollinearity. The heteroskedasticity test in this study was conducted using the Glejser test.

**Tabel 5. Heteroskedastisitas Test**

<b>Coefficients</b>



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Variable	Sig.
X	0.978
Z1	0.759
Z2	0.494
Dependent Variable : Abs_Res	

Source : Primary Data Processed (2025)

A research model is considered free from heteroscedasticity if it has a significance value (sig) > 0.05. As shown in the table above, each variable has a sig value > 0.05, indicating that this research model does not exhibit signs of heteroscedasticity.

The multiple linear regression test for Model 1 in this study was conducted to determine the effect of the independent variable, product innovation, and the moderating variables, digital payment and digital marketing, on the dependent variable, MSME revenue, partially. The following are the results of the multiple linear regression test for Model 1. :

**Tabel 6. Results of Multiple Linear Regression Analysis Test for Model 1**

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
1 (Constant)	11.416	1.078		10.590	.000
Inovasi Produk	.158	.066	.130	2.388	.018
Digital Payment	.152	.054	.139	2.821	.005
Digital Marketing	.304	.057	.267	5.345	.000
a. Dependent Variable : Pendapatan UMKM					

Source : Primary Data Processed (2025)

From the table above, it is evident that the significance value of each variable is less than 0.05. This indicates a significant partial effect of the three variables on MSME income. Furthermore, based on the calculated t-values, all three variables have t-values greater than the t-table value of 1.9723 in this study, confirming their positive partial influence on MSME income.

**Tabel 7. Simultan Test (F)**

ANOVA		
Model	F	Sig



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1	97.212	.000
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Source : Primary Data Processed (2025)

From the F-test table above, the significance value is 0.000 (< 0.05), indicating that the variables of product innovation, digital payment, and digital marketing have a simultaneous effect on MSME income.

**Tabel 8. Coeffitien Determinasi Test Model 1**

Model	R	R Square	Adjusted R square	Std Error of the Estimate
1	.593 <sup>a</sup>	.352	.348	2.47029

Source : Primary Data Processed (2025)

The R Square value is 0.352, which means that the three variables above influence MSME income by 35.2%, while the remaining 64.8% is affected by other variables.

Regression test model 2 in this study was conducted to determine the effect of the product innovation variable on MSME income, with digital payment and digital marketing as moderating variables. This test is also known as the Moderated Regression Analysis (MRA). The results of the MRA test are as follows:

**Tabel 9. Results of Multiple Linear Regression Analysis Test for Model 2**

Model	Unstandardized Coefficients		Standardized Coefficients	t	sig
	B	Std. Error	Beta		
1	(Constant)	11.416	1.078		
	Inovasi Produk * Digital Payment	.509	.018	.344	3.215 .002
	Inovasi Produk * Digital Marketing	.039	.019	.219	2.041 .043
a. Dependent Variable : Pendapatan UMKM					

Source : Primary Data Processed (2025)

Based on the table above, the significance value of the interaction variable between product innovation and digital payment is 0.002 (<0.05), indicating that digital payment strengthens the relationship between product innovation and MSME income. Similarly, the significance value of the interaction variable between product innovation and digital marketing is 0.043 (<0.05), leading to the conclusion that digital marketing also strengthens the relationship between product innovation and MSME income.

**Tabel 10. Coeffitien Determinasi Test Model 2**



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Model	R	R Square	Adjusted square	R	Std Error of the Estimate
1	.861 <sup>a</sup>	.741	.733		1.57992

Source : Primary Data Processed (2025)

The R Square value is 0.741, meaning that the influence of product innovation on MSME income is 74.1% after the moderating role of digital payment and digital marketing is taken into account.

### **Discussion**

Based on the data analysis conducted, several findings have been identified. First, product innovation has a significant positive effect on MSME income. This aligns with the Resource-Based View (RBV) theory, which states that a company's ability to generate high revenue corresponds with its competitive advantage. The RBV theory suggests that competitive companies meet the VRIO (Valuable, Rare, Inimitable, and Organized) criteria. Similarly, MSMEs—whether micro, small, or medium-scale enterprises—tend to experience increased income when they successfully innovate. Innovation can take the form of product quality improvements, product design modifications, product variations, process enhancements, and product packaging. This positive relationship is supported by the study conducted by Alqahtani et al. (2024), which found that highly competitive MSMEs in Saudi Arabia are those that engage in innovation.

The study also reveals a significant positive relationship between digital payment and MSME income. This finding indicates that the more efficient a business operates, the higher its income level. Efficiency, in this context, refers to the ease of transactions with customers. This is consistent with the research by Pratama et al. (2023), which also reported a positive relationship between these two variables. Additionally, digital marketing has been found to have a significant positive impact on MSME income. This means that MSME actors in Surakarta who utilize electronic media for promotion successfully expand their market reach, leading to increased revenue. This finding aligns with the research by Daud et al. (2022), which also demonstrated the impact of digital marketing on business income. However, the positive relationship between product innovation and MSME income is further strengthened when MSMEs also adopt digital technology. This is evident from the increase in the R Square value from 35.2% to 74.1% after MSMEs adopt digital solutions. The digital adoption examined in this study includes digital payment systems, which facilitate seamless transactions with consumers, and digital marketing, which expands market reach while minimizing promotional costs. These findings highlight that MSMEs that leverage digital technology can maximize the impact of their product innovation on business revenue.

### **5. CONCLUSION & SUGGESTION**

Based on the analysis results, it can be concluded that product innovation, digital payment, and digital marketing significantly influence MSME income, both partially and simultaneously. Additionally, digital payment and digital marketing strengthen the impact of product innovation on MSME income. This study enhances the existing literature on key factors in increasing MSME income. Future research is recommended to expand the scope of MSME actors in Surakarta, as this study only covered 194 MSMEs, whereas the number of MSMEs in Surakarta continues to grow each year.



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Furthermore, this research was limited to certain industrial sectors, such as food and beverage, fashion, services, crafts, and retail. However, many other MSME sectors in Surakarta remain unexplored, such as agriculture, plantations, and livestock. The implementation of innovation and digital adoption, as highlighted in this study and supported by previous research, is expected to raise awareness among MSME actors about the importance of innovation and keeping up with digital advancements to maximize their revenue potential.

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