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The Role of Differentiation in Mediating the Influence of Market Development and Product Development on Business Performance (Studies on Apparel SMEs in Denpasar City)

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ABSTRACT : Business performance is the result of the implementation of activities carried out by all elements within the company as a process of achieving goals. Good business performance can be seen from the achievement of the targets they set during that time. To achieve good performance, many factors influence, such as market development, product development, and differentiation. The purpose of this study is to explain the role of differentiation in mediating the influence of market development and product development on the performance of the SMEs apparel business in Denpasar City. This research was conducted in Denpasar City. The sample size in this study was as many as 100 owners or managers of SMEs apparel. Data collection was carried out by distributing questionnaires. Data analysis was performed using the Structural Equation Model (SEM) based on Partial Least Square (PLS). Based on the results of the research that has been done, the following results are obtained: 1) Market development has a significant positive effect on business performance. 2) Product development has a significant positive effect on business performance. 3) Market development has a significant positive effect on differentiation. 4) Product development positively and significantly affects differentiation 5) Differentiation significantly mediates the effect of market development on business performance. 6) Differentiation significantly mediates the effect of product development on business performance 7) Differentiation has a significant positive effect on business performance.
KEYWORDS : *Market Development, Product Development, Differentiation, Business Performance*

I.   INTRODUCTION

The phenomenon of changing needs and lifestyles in this era of globalization is taking place very quickly. People's lifestyle continues to develop along with the times which are heavily influenced by globalization. The influence of globalization has touched almost all aspects of life in society, including dress styles. Style of dress is closely related to lifestyle. An individual's lifestyle can be judged by how he dresses. Lifestyle also shows and determines the social and occupational status of an individual (Hendraningrum et al., 2014). This change requires companies to always make improvements in meeting the needs and lifestyles of consumers and strive to create a product that has advantages and is different from its competitors.

Competition in the business and trade sectors in Indonesia is getting tighter, especially for small and medium scale enterprises (SMEs). This competition is indicated by the increasing number of SMEs from year to year. Based on data from the Indonesian Cooperatives Department, there were 62,922,617 SMEs in 2017 and increased to 64,194,057 in 2018.

In 2020, there has been a pandemic, namely Covid-19 which has an impact on SMEs. A study made by the Ministry of Finance shows that the Covid-19 pandemic has negative implications for the domestic economy, such as a decrease in public consumption and purchasing power, a decline in company performance, a threat to the banking and financial sectors. In the corporate aspect, this pandemic has disrupted the performance of companies, especially those engaged in the trade, transportation and tourism sectors. In the SMEs aspect, this pandemic has caused a decline in performance from the demand side (consumption and purchasing power of the public) which ultimately has an impact on the supply side, namely termination of employment and the threat of non-performing loans.

The apparel industry is a promising industry. This can be seen from the rapid increase in the apparel industry from year to year. Based on data from the Central Statistics Agency (BPS), the number of micro and small-scale apparel industries in Indonesia has increased (2013 - 2015). In 2013 there were 342,077 SMEs and in 2015 the number of SMEs increased to 409,583 UKM. In 2020, in this Covid-19 pandemic situation, based on data from the Indonesian Cooperative Department, there are around 37,000 SMEs who report that they are very seriously affected by this pandemic, marked by: around 56 percent reported a decrease in sales, 22 percent

reported problems in this aspect. financing, 15 percent reported problems with distribution of goods, and 4 percent reported difficulties in obtaining raw materials. This pandemic has caused SMEs to adapt and innovate in order to keep running. The innovation made by apparel SMEs is producing more everyday casual clothes, such as pajamas, negligee, masks, and casual pants. There are several associations in Indonesia that are related to the apparel industry, for example, the Indonesian Apparel Manufacturing Association (AMI), the Indonesian Garment Manufacturers Association (APGI), the Indonesian Fashion Entrepreneurs Designer Association (APPMI), and the Indonesian Textile Association (API).

Business performance can be understood as a medium to measure the results that the company has achieved over a period of time (Fathor, 2019). Assessment of business performance will determine whether the improvement efforts that have been made by the company have had a positive impact on the company. Various companies have different ways and strategies in measuring their business performance.

Companies can expand or develop markets as a strategy to improve their business performance. A market development strategy is defined as a decision by an organization with a view to increasing sales volume, revenue, and maintaining market share (Hussain et al, 2013). The market development strategy focuses on increasing the company to get new users in the current market and potential markets who may have other important needs that are not offered by competitors in the market (Leitner, 2014).

If the company has paid attention to other potential markets, then the next step is to make a marketing strategy policy related to the product. It can be ascertained that consumers choose good quality products compared to other products (Harindra et al., 2014). Product development that companies can do is renewal that concerns the product itself, because the product is the main reason for someone to choose and buy it. Consumers will make a decision to buy a product if the product has more value than other products. Indeed, it is not easy to produce a good quality product when the raw materials are expensive or even to make it requires sophisticated technology. However, at least the producers still pay attention to the quality of the products that have been launched on the market. Product innovation or development carried out at companies is able to improve company performance (Djayadiningrat et al., 2017).

With good market development and product development, companies can also carry out strategies that make their products different from their competitors. Differentiation is the act of designing a series of meaningful differences to differentiate a company's bid from competitors' bids. The strategy in creating unique and different products from competitors becomes more value than the products produced by the company. Creating a product with certain uniqueness or characteristics can produce the product's advantages compared to competitors. There is a research gap in this study which examines the effect of product development, market development, and differentiation on business performance. Research conducted by Hartini (2012) states that product development has no effect on business performance. This means that changes in product development have no effect on changes in business performance. This is because competitors can quickly imitate the company's product innovations. As a result, product development carried out by the company is not considered special, so that product development does not have an impact on the company's profitability and growth. Meanwhile, research conducted by Rini (2013), Perwiranegara (2015), Haryono and Marniyati (2017), Asashi and Sukaatmadja (2017) shows that product development strategies positively affect business performance. Pérez - Luño et al. (2016) found that market development has no effect on SME business performance, in contrast to research by Setyawati and Rosiana (2015) which shows that there is a positive influence between market development and business performance. Research conducted by Rochmah (2014) shows that differentiation has no effect on sales volume, which is an indicator of business performance. The results of this study contradict the research of Valipour et al. (2012) which states that if the company's strategy is based on a differentiation strategy, business performance will increase.

The pre-survey was conducted on 31 August 2020 to 10 (ten) apparel SMEs in Denpasar City through questionnaires. The names of apparel SMEs that have filled out the questionnaire are Oompa, Arik Shop, Series, Threebucks, Art.D Production, Vikari, Merrys Collection, Monokrom Concept Store, Voordurend, and Hanaka Based on the pre-survey that has been conducted, it can be concluded that 10 (ten) of the respondents were successful in implementing the market development strategy. As many as 10 (ten) of the respondents were successful in implementing product development and differentiation strategies. As many as 8 (eight) of the participating respondents stated that there were regular improvements in their business performance after implementing market development, product development and differentiation strategies.

II.   CONCEPTUAL MODEL AND HYPOTHESIS

Research conducted by Mbithi et al. (2015) show that market development to new market segments involving consumers who previously did not use the product and also reaching new geographic areas can affect the utilization of company capacity, sales volume and company performance. Research conducted by Supriyono et al. (2016) show that market development has a significant positive effect on sales volume which is an

indicator of business performance. Research conducted by Setyawati and Rosiana (2015) shows that market development has a significant positive effect on business performance.

H₁: Market development has a significant positive effect on business performance

Research conducted by Haryono and Marniyati (2017) shows that there is a significant relationship between product development strategies and the success of new products in entering the market with company performance. The five product innovation strategies implemented by the company can improve company performance. Research conducted by Rini (2013) shows that product development has a big role in increasing sales volume which is one of the indicators of business performance. Research conducted by Perwiranegara (2015) shows that product development strategies have a positive effect on business performance.

H₂: Product development has a significant positive effect on business performance

Research conducted by Alkasim et al. (2018) show that market development has a significant positive effect on business performance and differentiation mediates the influence between market development on business performance. Research conducted by Satyarini (2016) Hardjono and Utari (2017) shows that market development has a positive and significant effect on differentiation. Thus, the following hypothesis can be formulated.

H₃: Market development has a significant positive effect on differentiation

Research conducted by Alkasim et al. (2018) show that product development has a significant positive impact on business performance and differentiation mediates the relationship between product development and business performance. Research conducted by Setiawan (2012) and Sugiyarti (2015) shows that product development has a significant positive effect on differentiation.

H₄: Product development has a significant positive effect on differentiation

Research conducted by Alkasim et al. (2018), Muiz and Sunarta (2018), Iswati (2018) show that differentiation mediates the relationship between market development and product development on business performance.

H₅: Differentiation mediates the relationship between market development and business performance

Research conducted by Tarida (2012), Sulistiani (2014), and Alkasim et al. (2018) show that differentiation mediates the relationship between product development and business performance.

H₆: Differentiation mediates the relationship between product development and business performance

Research conducted by Rustamblin et al. (2013) show that the implementation of a differentiation strategy has an important influence on the performance of commercial banks, especially for indicators of developing new or existing products, developing sales force and introducing new products to the market.

Research conducted by Anggraini and Sukaatmadja (2015) shows that differentiation has a positive and significant effect on improving business performance. Afiyati et al (2019) stated that the differentiation strategy has a significant positive effect on business performance. This means that the differentiation strategy is a factor that can determine the level of performance of the SMEs business. The higher the differentiation strategy undertaken by SMEs, the higher the business performance will be.

H₇: Differentiation has a significant positive effect on business performance
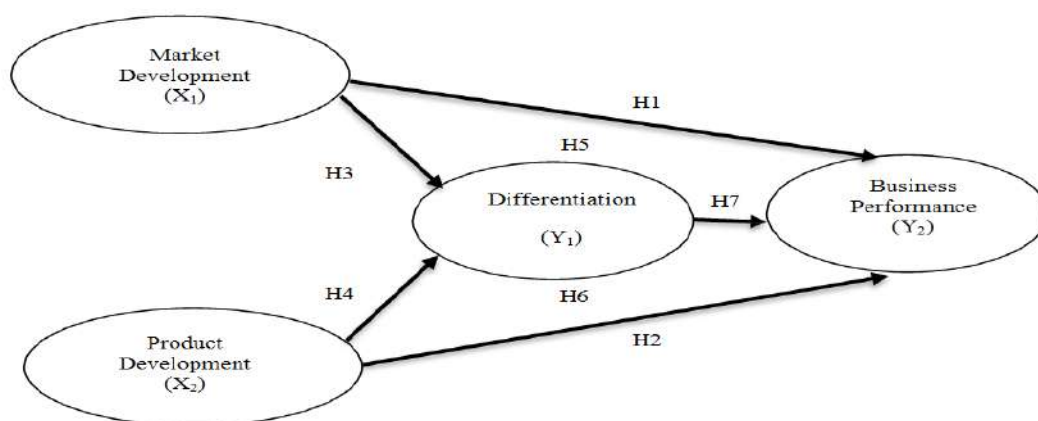
Source: *Alkasim et al, (2018)*

Figure 1. Conceptual Framework

III.   RESEARCH METHODS

This research design is classified into associative research, namely research that aims to determine the relationship between two or more variables (Sugiyono, 2014: 55). This research was conducted on apparel SMEs in Denpasar City. This study uses a questionnaire and google form as a data collection tool. The population chosen was the manager of apparel SMEs in Denpasar City because Denpasar City had 664 apparel SMEs, the most compared to other cities / regencies. In this study, the sample used was 100 managers of SMEs apparel in Denpasar City. The sample size of 100 SMEs apparel managers is determined based on the method of determining the sample size according to Ferdinand (2014: 51). The sampling method used in this study is non probability sampling. The technique used is purposive sampling. The criteria used in determining the sample in this study are that the company carries out the production process or sells its products to consumers, and the company has been operating for at least the last 3 years. The model to be used in this study is a model of causality or relationship or influence and to test the proposed hypothesis, the analysis technique used is the student version of PLS (Partial Least Square). PLS is a component or variant based Structural Equation Modeling (SEM) equation model. PLS is an alternative approach that shifts from a covariance-based to variant-based SEM approach.

IV.   RESULTS AND DISCUSSION

In this study, there were 100 respondents. The characteristics of the 100 respondents are the profiles of each respondent obtained in data collection using a questionnaire. Respondent profiles consist of name, gender, age, and last education. The following are the characteristics of the overall respondents.

Table 1 Respondent Characteristic

No	Characteristic	Classification	Total (unit of person)	Percentage (%)
1	Gender	Male	54	54
		Female	46	46
	Total		**100**	
2	Age	20-24 years old	22	22
		25-29 years old	44	44
		30-34 years old	19	19
		35-39 years old	6	6
		>39 years old	9	9
	Total		**100**	
3	Education	Senior High School	32	32
		Diploma	4	4
		Bachelor	63	63
		Master	0	0
		Junior High School	1	1
	Total		**100**	

Source: Data Processed, 2020

Based on Table 1, the respondents were dominated by male with a total of 54 respondents or as much as 54 percent, because the apparel SMEs studied in this study were dominated by products for male. The age characteristics were dominated by respondents in the age range 25 to 29 with a percentage of 44 percent, while the lowest percentage was the age range 35 to 39, namely 6 percent, because at the age of 25-29 the styles of dress tend to follow the latest trends. Based on educational criteria, respondents with the last bachelor degree were the largest respondents, namely 63 percent.

The research model was analyzed by using partial least square (PLS) with the smartPLS application. In testing the research results, there are two basic model evaluations, namely the outer model and the inner model.

1) Evaluate the outer model

Outer model is a measurement model to measure the validity and reliability of the research model under study. Validity and reliability were measured by three criteria, namely convergent validity, discriminant validity, and average variance extracted (AVE).

a) Convergent validity test

Table 2 Loading Factor Research Indicators

Variable	Indicator	Loading Factor	Kesimpulan
Market Development (X_1)	X_1	0.921	Valid
	X_2	0.912	Valid
Product Development (X_2)	$X_{2.1}$	0.859	Valid
	$X_{2.2}$	0.866	Valid

	$X_{2.3}$	0.918	Valid
Differentiation ($Y_{1)}$)	$Y_{1.2}$	0.872	Valid
	$Y_{1.3}$	0.878	Valid
	$Y_{1.4}$	0.856	Valid
Business Performance (Y_2)	$Y_{2.1}$	0.864	Valid
	$Y_{2.2}$	0.897	Valid
	$Y_{2.3}$	0.872	Valid
	$Y_{2.4}$	0.690	Valid

Source: Data Processed, 2020

The results above indicate that all variable items have a loading factor value > 0.50, meaning that the items have passed the convergent validity test. Another method for assessing convergent validity is by comparing the square root of average variance extracted (AVE) value of each construct with the correlation between constructs and other constructs in the model, where the AVE value must be > 0.50.

Variable	AVE
Differentiation	0,755
Business Performance	0,697
Market Development	0,840
Product Development	0,777

Based on the data in the table above, it shows that all research variables have an AVE value of more than 0.50. This shows that the research variables have a good convergent validity.

b) Discriminant validity test

Table 3 Cross Loading

	Market Development	Product Development	Differentiation	Business Performance
X_1	**0,921**	0,530	0,605	0,626
X_2	**0,912**	0,450	0,591	0,574
$X_{2.1}$	0,507	**0,859**	0,542	0,525
$X_{2.2}$	0,384	**0,866**	0,587	0,444
$X_{2.3}$	0,518	**0,918**	0,641	0,597
$Y_{1.}$	0,557	0,569	**0,872**	0,597
Y_2	0,498	0,541	**0,878**	0,618
Y_3	0,640	0,653	**0,856**	0,559
$Y_{2.1}$	0,592	0,542	0,712	**0,864**
$Y_{2.2}$	0,600	0,495	0,509	**0,897**
$Y_{2.3}$	0,608	0,521	0,551	**0,872**
$Y_{2.4}$	0,349	0,422	0,471	0,690

Source: Data Processed, 2020

The results of Table 3 above indicate that all variable items have the highest correlation in the latent variables, therefore the items are discriminant and appropriate for analysis to the next research stage.

c) Reliability Evaluation

Reliability testing was performed using composite reliability and cronbach's Alpha test. The variable is said to be reliable if the value of composite reliability and Cronbach's alpha is more than 0.70. Table 4 shows the Cronbach's alpha value and the composite reliability value.

Table 4 Test Results for Discriminant Validity (Cross Loading)

Variable	Cronbach's Alpha	Composite Reliability
Market Development (X_1)	0,810	0,913
Product Development (X_2)	0,856	0,913
Differentiation (Y_1)	0,838	0,902
Business Performance (Y_2)	0,852	0,901

Source: Data Processed, 2020

Table 4 shows that the Cronbach's alpha value and the composite reliability value of each variable have been more than 0.70. Thus, it can be explained that the construct has good reliability. And the questionnaire used as a tool in research has been reliable or consistent.

2) Evaluate the inner model

The evaluation of the structural model (inner model) has the aim of predicting the relationship between latent variables. The relationship between latent variables can be seen based on the coefficient of determination R-square (R^2).

a) R-Square Test (R^2)

Table 5 R-Square Test Results (R^2)

Dependent Variable	R Square	Adj. R Square
Differentiation (Y1)	0,571	0,562
Business Performance (Y2)	0,561	0,547

Source: Data Processed, 2020

Table 5 shows the R-square value of the differentiation variable is 0.571, which means that 57.1 percent of the differentiation construct is influenced by market development and product development. Another 42.9 percent are influenced by constructs outside the model. The R-square value of the business performance variable is 0.561, meaning that 56.1 percent of business performance is influenced by market development and product development and differentiation. The other 43.9 percent are influenced by other models outside the construct.

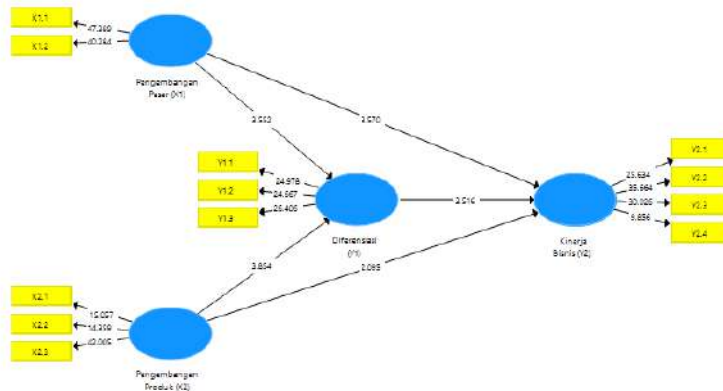b) Result of t-Statistic (Bootstrapping)

Figure 2. Analysis Model Path Diagram

Table 6 Path Coefficient Test Results

Relations between variables	Original Sample	Sample Mean	Std. Deviation	T Statistik	P value
Differentiation (Y_1) -> Business Performance (Y_2)	0,331	0,337	0,094	3,156	0,000
Market Development (X_1) -> Differentiation (Y_1)	0,411	0,404	0,116	3,552	0,000
Market Development (X_1) -> Kinerja Bisnis (Y_2)	0,336	0,331	0,094	3,570	0,000
Product Development (X_2) -> Differentiation (Y_1)	0,451	0,459	0,117	3,854	0,000
Product Development (X_2) -> Business Performance (Y_2)	0,195	0,194	0,093	2,095	0,018

Source: Data Processed, 2020

Based on the direct effect table above, it shows that all variable relationships are proven to have a significant effect. This is indicated by the p value <0.05.

Table 7 Indirect Effect Test Results

Relations between variables	Original Sample	Sample Mean	Std. Deviation	t Statistic	P value
Market Development (X_1) -> Business Performance (Y_2)	0,136	0,135	0,051	2,686	0,004
Product Development (X_2) -> Business Performance (Y_2)	0,149	0,158	0,068	2,183	0,015

The Effect of Market Development on Business Performance

The bootstrapping test results show that hypothesis one (H_1) is accepted. The t-statistic value for H_1 is 3.570 with a path coefficient value of 0.336 and a p value of 0.000 indicating that the value of the relationship between market development and business performance has a significant positive effect. Based on the research model, it can be explained that the company's business performance will increase if the company is able to

expand its market segment and expand its market share. The results of this study support the research conducted by Mbithi et al. (2015), Supriyono et al. (2016), as well as Setyawati and Rosiana (2015), market development has a significant positive effect on business performance.

The Effect of Product Development on Business Performance

The bootstrapping test results show that hypothesis two (H_2) is accepted. The t-statistic value for H_2 is 2.095 with a path coefficient value of 0.195 and a p value of 0.018 shows that the value of the relationship between product development and business performance has a significant positive effect. Based on this research model, it can be explained that the company's business performance will increase if the company is able to develop attractive designs, develop product quality, and create new ideas. The results of this study support the research conducted by Haryono and Marniyati (2017), Rini (2013), and Perwiranegara (2015). Thus, product development has a positive and significant effect on business performance.

The Effect of Market Development on Differentiation

The estimation result of the structural model shows the test value of the relationship hypothesis between market development and differentiation or hypothesis three (H_3) has a t-statistic value of 3.552 with a path coefficient value of 0.411 and a significance value of 0.000. The test value shows that H_3 is accepted, that is, market development has a positive and significant effect on differentiation. The results of this study are in line with previous studies conducted by Alkasim et al. (2018), Satyarini (2016), and Hardjono and Utari (2017). Thus, market development has a positive and significant effect on differentiation.

The Effect of Product Development on Differentiation

The estimation results of the structural model show the test value of the relationship hypothesis between market development and differentiation or hypothesis four (H_4) has a t-statistic value of 3.854 with a path coefficient value of 0.451 and a significance value of 0.000. The test value shows that H_4 is accepted, that is, product development has a positive and significant effect on differentiation. The results of this study are in line with previous studies conducted by Alkasim et al. (2018), Sugiyarti (2015) and Setiawan (2012). Thus, product development has a positive and significant effect on differentiation.

The Effect of Differentiation Mediation on the Relationship between Market Development and Business Performance

Based on data from Table 7 regarding the indirect effect between market development, differentiation and business performance, the t-statistic value is 2.686 with a path coefficient value of 0.136 and a p value of 0.004. This value shows that differentiation partially mediates the effect of market development on business performance. The results of this study support the results of previous studies regarding similar relationships conducted. Research conducted by Alkasim et al. (2018), Muiz and Sunarta (2018), and Iswati (2018). The previous research stated that differentiation mediates the effect of market development on business performance in a significant positive manner.

The Effect of Differentiation Mediation on the Relationship between Product Development and Business Performance

Based on data from Table 7 regarding the indirect effect between product development, differentiation and business performance, the t-statistic value is 2.183 with a path coefficient value of 0.149 and a p value of 0.015. This value shows that differentiation partially mediates the effect of product development on business performance. The results of this study support the results of previous studies regarding similar relationships conducted. Research conducted by Alkasim et al. (2018), Sulistiani (2014), and Tarida (2012). The previous research stated that differentiation mediates the effect of product development on business performance in a significant positive manner.

The Effect of Differentiation on Business Performance

The value of the t-statistic hypothesis seven (H_7) is 3.156 with a path coefficient value of 0.331 and a p value of 0.000. This means that differentiation has a positive and significant effect on business performance. Then Hypothesis seven or H_7 is accepted. The results of this study are in line with the results of previous studies conducted by Rustamblin et al. (2013), Anggraini and Sukaatmadja (2015) and Zainudin et al. (2016), and Afiyati et al (2019). To improve business performance through differentiation can be done by creating products that are distinctive, and have a good style and design.

V.　CONCLUSION

Based on the research results it can be concluded that market development has a significant positive effect on business performance. These results indicate that the better the implementation of a company's market

development strategy, the better its business performance. Product development has a significant positive effect on business performance. These results indicate that the better the implementation of a company's product development strategy, the better its business performance. Market development has a significant positive effect on differentiation. These results indicate that the better the application of a company's market development in SMEs Apparel, the better the differentiation of the company. Product development has a significant positive effect on differentiation. These results indicate that the better the implementation of a company's product development in SMEs Apparel, the better the differentiation of the company. Significant differentiation partially mediates the effect of market development on business performance. This shows that the better the implementation of the market development strategy, the more business performance will be in the SME Apparel in Denpasar City. In addition to having a direct influence on business performance, market development is also able to improve business performance through differentiation. Significant differentiation partially mediates the effect of product development on business performance. This shows that the better the implementation of product development strategies, the more business performance will increase in SMEs in the City of Denpasar. Besides having a direct influence on business performance, product development is also able to improve business performance through differentiation. Differentiation has a positive and significant effect on business performance. The better the differentiation of a company, the better the company's business performance.

The suggestions given are expected to be able to help the owners of SMEs Apparel in Denpasar City to improve the business performance of their companies. Owners or managers of apparel SMEs in Denpasar City need to carry out market development. SMEs owners need to find as much market information as possible in order to find out market needs. They also need to prioritize customer satisfaction so that customers become loyal and always make repeat orders. Apparel SMEs in Denpasar City need to seek innovative breakthroughs in various fields, including the development of new products. To create the right innovation, it is necessary to extract as much information as possible about market needs, for example, product designs that are trending.

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