

## THE INFLUENCE OF INNOVATION AND PRODUCT QUALITY ON THE COMPETITIVE ADVANTAGE OF COMPASS PRODUCTS

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### ABSTRACT

*The fashion industry continues to experience rapid development, providing great business opportunities, especially in the shoe sector. The Compass company as one of the local shoe manufacturers in Indonesia faces intense competition, which requires them to continue to innovate and improve product quality in order to achieve competitive advantage. This study aims to determine the effect of innovation and product quality on the competitive advantage of Compass products. The research method used is quantitative method with descriptive-causality research type. Sampling was carried out using non-probability sampling technique saturated sampling type with 100 respondents. Data were analyzed using multiple linear regression analysis. The results showed that product innovation has a significant effect on competitive advantage with a t value of 5.512 > t table 1.988, and product quality also has a significant effect on competitive advantage with a t value of 4.510 > t table 1.988. Simultaneously, product innovation and product quality have an effect of 60.6% on competitive advantage, while 39.4% is influenced by other variables outside this study. The conclusion of this study is that product innovation and quality play an important role in creating a competitive advantage for Compass products.*

**KEYWORDS** Innovation, Product Quality, Competitive Advantage, Compass Products, Shoes, Entrepreneurship



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### INTRODUCTION

Product innovation and product quality have become significant global issues in modern industry. Around the world, companies strive to create products that are not only attractive but also meet the evolving needs of consumers. As global competition intensifies, companies that are unable to innovate will be left behind and lose market share. Product innovation not only helps companies meet market

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demand, but also allows them to create new trends that can change the way consumers perceive an industry as well, product quality is a key element in maintaining consumer loyalty and strengthening competitive advantage.

In Indonesia, one company that has managed to create innovative and high-quality products is Compass Shoes, which in recent years has become a phenomenon in the local and international markets. However, to remain in the fierce competition, companies like Compass must continue to innovate and maintain the quality of their products to remain competitive.

The main factors affecting companies in maintaining a competitive advantage are changing consumer preferences and increasing expectations of product quality. Modern consumers are increasingly aware of the quality of the products they buy and tend to choose products that offer more than just basic functionality. This is reinforced by technological advances that encourage the birth of innovative products that answer consumers' needs for comfort, aesthetics, and advanced features. In addition, intense competition in the shoe industry is also an important factor. Many local and international shoe brands are competing to attract consumer attention with product innovation and aggressive marketing strategies. If companies are unable to adapt quickly to these changes, they will be left behind in the competition.

The impact of these factors on rapid consumer preferences and increased competition has created enormous pressure for companies to continuously innovate and improve the quality of their products. This has a direct impact on consumer loyalty and product sales. Unsuccessful product innovation or declining product quality can lead to a loss of consumer confidence, which in turn results in a decline in sales and market share. In contrast, companies that are able to innovate and maintain high product quality tend to have a stronger competitive advantage. They are not only able to attract new consumers but also retain existing customers, creating sustainable brand loyalty.

This study has two main variables, namely product innovation and product quality, and how these two variables affect the competitive advantage of Compass Shoe products. Product innovation is defined as the process of creating something new or improving existing products to meet evolving consumer needs. Product innovation is not only about creating new designs, but also about adding more value to existing products.

Meanwhile, product quality refers to the extent to which the product exceeds consumer expectations. Product quality covers various aspects such as durability, function, aesthetics, and convenience. The combination of innovation and good product quality is key in creating a competitive advantage.

This research has novelty in two aspects. First, it focuses on a local Indonesian brand, Sepatu Compass, which has become one of the strongest brands in the footwear industry in Indonesia. Second, this study does not only analyze one variable, but assesses how the synergy between product innovation and product quality can affect overall competitive advantage. In addition, this study also provides new insights into how product innovation and quality affect a company's success in competing in the global market.

The urgency of this research lies in the increasing competition in the footwear industry in Indonesia demanding local companies to innovate and maintain the quality

of their products to remain relevant in the market. Compass shoes are an example of a local brand that has successfully penetrated the market with innovative and high-quality products. Namerus competes with more established international brands, a strategy of continuous innovation and quality improvement is required.

The purpose of this study was to determine how much influence product innovation has on the superiority of Compass shoes, how much influence product quality has on competitive advantage, and how much influence product innovation and product quality simultaneously have on competitive advantage. By understanding this relationship, it is hoped that companies can devise more effective strategies to maintain their competitive advantage in a competitive market.

### **Literature Review**

Strategic management involves the process of identifying company goals, utilizing resources, and implementing effective ways to achieve these goals. According to Zullriani Ritonga (2020), strategic management encompasses decisions, actions, and analyses used by companies to create a competitive advantage. This definition also emphasizes the importance of a continuous process with unique and difficult-to-imitate strategies to ensure long-term competitiveness (Eddy Yunus, 2016). The strategic management process includes steps such as identifying objectives, analyzing the environment, developing strategies, implementing, and evaluating strategies (Novianto, 2019).

Competitive advantage arises from a company's ability to provide unique solutions to consumers that cannot be replicated by competitors. According to Zurn (2017), this advantage can be in the form of price, quality, features, or service convenience. In this context, companies can apply strategies such as product innovation, cost reduction, or quality improvement to strengthen their competitive position in the market (Sunyoto, 2015). Rare, hard-to-imitate, and irreplaceable resources and capabilities are also important factors in creating a competitive advantage (Sunyoto, 2015).

Product innovation is an effective way to create a competitive advantage. Kuncoro & Suriani (2018) state that innovation, whether in technology, product design, or business processes, is essential for companies to maintain market share and enhance product value in the eyes of consumers. Adedapo & Bamiduro (2020) add that product innovation not only involves developing new products but also improving existing ones to meet the continuously evolving market needs.

Product innovation is a result of rapid technological changes and high product variation that will determine the performance of a company. Kuncoro & Suriani (2018) define innovation in various ways, most of which focus on technological improvement or product development. According to Gunday Ulusoy (2011) in Adedapo & Bamiduro (2020), innovation is widely regarded as a crucial component of competitiveness, embedded in the organizational structure, processes, products, operations, and services within a company.

According to Philip and Kotler in Cesariana et al. (2022), product quality is all the elements present in a product offered to consumers that aim to meet market needs with high-quality products. When a company can provide a product quality

that satisfies consumers, the impact received by the company is a competitive advantage over other products (Fauzi & Mandala, 2019).

The relationship between product quality and product innovation for a company involves the importance of product development to create products with a competitive advantage. Moreover, improving product quality according to customer expectations is a strategy for maintaining competitive advantage. The importance of competitive advantage is key to facing market competition. Various studies show factors that support the formation of competitive advantage, such as product quality and product innovation.

Product quality also has a significant impact on competitive advantage. High-quality products meet consumer expectations and provide greater satisfaction, which can enhance customer loyalty (Fauzi & Mandala, 2019). According to Christian (2017), good product quality should encompass aspects such as performance, durability, compliance with specifications, features, reliability, aesthetics, and perceived quality. The quality perceived by customers is crucial for maintaining a competitive position in the market (Hosseini et al., 2018).

The combination of innovation and product quality is the main strategy to achieve a competitive advantage. According to Kuo (2020), companies that want to maintain their advantage must understand the dimensions consumers use to differentiate their products from those of competitors. Product innovation and quality play a key role in creating additional value for customers, which ultimately helps win market competition (Kulmbara & Afulan, 2019). This study supports the hypothesis that product innovation and quality significantly affect the competitive advantage of a company (Defy et al., 2021).

### **Research Hypothesis**

According to I Made Indra (2019), a hypothesis is a temporary answer to a research problem statement that must be tested and is theoretically considered most likely and highly accurate. Based on this definition, the hypotheses proposed and to be proven in this study are as follows: "There is an effect of Product Quality and Product Innovation simultaneously and partially on the Competitive Advantage of Compass shoes."

- H0: There is no significant effect of product innovation on the competitive advantage of Compass partially.
- H1: There is a significant effect of product innovation on the competitive advantage of Compass partially.
- H0: There is no significant effect of product quality on the competitive advantage of Compass partially.
- H2: There is a significant effect of product quality on the competitive advantage of Compass partially.
- H0: To determine whether there is a significant effect of product innovation and product quality on the competitive advantage of Compass simultaneously.
- H3: To determine whether there is a significant effect of product innovation and product quality on the competitive advantage of Compass simultaneously.

## RESEARCH METHOD

This research is a quantitative study with a descriptive-causality approach that aims to analyze the effect of innovation and product quality on competitive advantage in Compass products. This research was conducted in the Bandung area, considering that the Compass company is a local brand that is well known in this region and is one of the main actors in the footwear industry in Indonesia. The research was conducted for six months, from January to June 2024, to ensure that the data obtained represents the latest conditions and is relevant to the development of the local fashion industry.

This research covers several key aspects related to product innovation, product quality, and competitive advantage. Product innovation is an important variable given the increasingly dynamic market demands, where companies need to continuously create new products that suit consumer preferences. Product quality is also an important aspect, considering that the level of consumer satisfaction is highly dependent on the quality of the shoes offered. Therefore, this study assesses how these two factors play a role in creating a competitive advantage for Compass products.

The population in this study are consumers of Compass products, consisting of individuals aged 18-35 years old who live in the Bandung area. This age range was chosen because this segment is the main market for fashion products, especially shoes. Given the high number of populations that fall within these criteria, the sample was taken using a *non-probability sampling* technique of *saturated sampling* type, where the entire population was used as the research sample. Thus, this study involved 100 respondents who met the predetermined criteria.

The research instrument used was a closed questionnaire designed to measure respondents' perceptions regarding innovation, product quality, and competitive advantage. This questionnaire consists of several sections that include questions regarding the variables of product innovation, product quality, and competitive advantage, with a Likert scale of 1-5. Respondents were asked to give their assessment of the prepared statements, which covered key aspects of each research variable.

In addition to the questionnaire, limited interviews were also conducted to deepen the understanding of the responses given by respondents. These interviews were conducted directly with selected respondents who have a deeper insight or experience of Compass products. The data obtained from these interviews was used to support and complement the results of the quantitative analysis conducted through the questionnaire.

The data processing strategy in this study involved descriptive analysis and multiple linear regression. Descriptive analysis was used to describe the profile of respondents and the distribution of their answers to the research variables. Meanwhile, multiple linear regression was used to examine the effect of product innovation and product quality on competitive advantage. With this approach, this study is expected to provide a clear picture of the extent to which product innovation and quality affect the competitive advantage of Compass products, both partially and simultaneously.

Validity and reliability tests of the research instruments were also carried out to ensure that the questionnaires used were able to measure the research variables accurately and consistently. The validity test was conducted using the *construct validity* method, while reliability was measured using the *Cronbach's Alpha* coefficient. The results of this test show that all items on the questionnaire have an adequate level of validity and reliability, so they can be used for data collection in this study.

The entire research process is designed to provide solutions to the problems faced by Compass in facing competition in the local shoe industry. By analyzing the relationship between product innovation, product quality, and competitive advantage, the company is expected to identify the right strategy to strengthen its position in the market. This research also provides deeper insights into how these factors can be optimized to achieve sustainable competitive advantage.

In addition, this research also considers the local context of the Compass company, taking into account the dynamics of the shoe market in Indonesia. This is important because the fashion industry, especially shoes, is highly influenced by local trends and consumer preferences that differ by region. Therefore, this research not only focuses on general theories of innovation and product quality, but also tries to understand how these concepts are applied in the local market context.

With this comprehensive approach, the study is expected to make a significant contribution to the literature on product innovation and product quality in the fashion industry, as well as provide practical recommendations for companies looking to improve their competitive advantage. In addition, the results of this study are also expected to be useful for other local shoe companies facing similar challenges in market competition.

## **RESULT AND DISCUSSION**

### **Research Results**

This study aims to evaluate the effect of product innovation and product quality on competitive advantage in Compass products. Based on the method previously described, this study uses quantitative data obtained from 100 respondents who are consumers of Compass shoes in Bandung, Indonesia. The analysis was conducted using descriptive techniques and multiple linear regression to test the effect of independent variables on the dependent variable.

### **Respondent Profile**

As a first step in understanding the context of the research, respondent profiles were collected to get an overview of who uses Compass products and their perceptions of the innovation and product quality offered by the company. Of the 100 respondents, most were within the age range of 18 to 35, which is the main target market for Compass shoes. 60% of the respondents were male, while the other 40% were female. The majority of respondents are workers or students, which reflects a market segment that is active in following fashion trends and has a preference for high-quality local products.

Respondents were also identified based on the frequency of purchasing Compass shoes. About 45% of respondents admitted to buying Compass products more

than once, while 35% stated that they were first-time buyers. The remaining 20% were consumers who bought Compass as part of a collection or because of a particular trend. This data illustrates that the Compass brand has a solid consumer base, especially among young people who are loyal to local products.

### **Overview of Research Variables**

This research focuses on three main variables, namely product innovation, product quality, and competitive advantage. Each variable is measured using several indicators that reflect consumer perceptions of these aspects.

#### **1. Product Innovation**

Product innovation in the context of this study is measured by several indicators, such as unique product design, the use of the latest technology in shoe making, and Compass's ability to respond quickly to fashion trends. Based on the questionnaire results, the average respondent gave a fairly high value to Compass product innovation. As many as 68% of respondents agreed that Compass is able to present innovative product designs that are different from other local competitors. However, only 55% felt that the technology used in Compass products was modern enough and in accordance with international product standards. This shows that although design innovation is recognized, there is room for Compass to improve technological innovation in the production process.

#### **2. Product Quality**

Product quality is assessed based on several aspects, such as shoe durability, comfort during use, and product finishing and details. Respondents tended to give a more positive assessment of the quality of Compass shoes, especially in terms of comfort. As many as 72% of respondents stated that they were satisfied with the comfort offered by Compass products, while 64% considered that the durability of the product was quite good, although there were some complaints related to the durability of glue and materials in certain shoe models. This finding is in line with several reviews that mentioned that Compass, despite having an attractive design, still needs to improve the quality of the materials used to compete in a wider market.

#### **3. Competitive Advantage**

Competitive advantage is measured based on respondents' perceptions of Compass' ability to survive in the local shoe market competition. A total of 58% of respondents agreed that Compass has an advantage in terms of branding and product image as a quality local product. However, only 48% felt that Compass was able to compete with international brands in terms of product innovation and quality. This shows that although Compass has successfully built strong brand awareness in the local market, there are still big challenges in competing with more established global brands.

### **Descriptive Analysis Results**

To provide a better understanding of the data obtained, a descriptive analysis of each variable was conducted. The following is a summary of the descriptive analysis for each variable.



1. **Product Innovation**

Based on the results of descriptive analysis, average product innovation is rated on a scale of 4 out of 5, with a standard deviation of 0.75. This shows that the majority of respondents consider Compass' product innovation to be at a good level. Most respondents gave high scores for the design aspect, but gave lower ratings for the use of the latest technology in shoe production.

2. **Product Quality**

Product quality received an average score of 4.2 with a standard deviation of 0.68. Respondents were generally satisfied with the quality of the shoes, especially in terms of comfort. However, some respondents complained about the inconsistent quality of materials in some shoe models. This indicates that improvements in material selection and product quality control can be a focus of improvement for Compass.

3. **Competitive Advantage**

The competitive advantage variable received an average value of 3.8 with a standard deviation of 0.82. This indicates that although Compass has successfully built a strong brand image among local consumers, there are still challenges in maintaining and improving its competitive position, especially when faced with global brands that offer products with more sophisticated technology and innovation.

### **Multiple Linear Regression Analysis Results**

After descriptive analysis, this study continued with multiple linear regression analysis to test the effect of product innovation and product quality variables on competitive advantage. The following are the results of the regression analysis that shows the effect of the two independent variables on the dependent variable:

1. **Product Innovation to Competitive Advantage**

The regression test results show that product innovation has a significant effect on competitive advantage with a t value of 5.512 and a p value  $<0.05$ . This means that product innovation makes a significant contribution to the creation of competitive advantage for Compass products. This is in line with previous findings which show that innovation in product design is one of Compass' main strengths.

2. **Product Quality on Competitive Advantage**

Product quality also has a significant effect on competitive advantage, with a calculated t value of 4.510 and a p value  $<0.05$ . This shows that good product quality plays an important role in creating a competitive advantage for Compass. Consumers who are satisfied with the quality of their shoes are more likely to have high brand loyalty, which in turn increases Compass' competitiveness in the local market.

3. **Simultaneous Effect of Product Innovation and Product Quality on Competitive Advantage**

Simultaneously, product innovation and product quality have a significant influence on competitive advantage with a calculated F value of 45.876 and a p value  $<0.05$ . The coefficient of determination ( $R^2$ ) obtained is 0.606,



which means that these two variables simultaneously explain 60.6% of the variation in competitive advantage, while the remaining 39.4% is explained by other factors outside this study.

## **Discussion**

Based on the results obtained, it can be concluded that both product innovation and product quality have an important role in creating a competitive advantage for Compass products. Innovation in product design proves to be one of the main strengths that make Compass different from other local competitors. However, although design innovation is good enough, Compass needs to improve the technological aspects and materials used in shoe manufacturing to compete with global brands.

In terms of product quality, respondents were generally satisfied with the comfort offered by Compass shoes. However, there were some complaints related to the durability of the materials and the finishing of the products, indicating that quality control still needs to be improved. If Compass is able to address these issues, they have the potential to expand their market share and increase consumer loyalty.

Compass' current competitive advantage is largely based on its branding and image as a quality local product. While this already provides an advantage in the local market, Compass needs to strengthen its innovation strategy and product quality to compete internationally.

This study aims to analyze the effect of product innovation and product quality on the competitive advantage of Compass products, which focuses on how innovation strategies and improving product quality are able to maintain and improve the position of local brands in the midst of intense competition. Based on the results obtained, product innovation and product quality are proven to have an important role in creating competitive advantage. In this section, the results of the study will be discussed in more detail, connected with data and previous research, and compared with the novelty that has been identified in the research background.

The fashion industry, particularly the footwear sector, has become one of the important pillars in Indonesia's creative economy. Data shows that Indonesia's fashion sector continues to experience significant growth. Based on a report from the Central Statistics Agency (BPS), the footwear sector in Indonesia is experiencing rapid growth, especially with the increasing public awareness of local products. Compass, as one of the well-known local shoe brands, seeks to capitalize on this trend by focusing on design innovation and product quality. However, as found in this study, Compass still faces several challenges, particularly in terms of technological upgrades and product quality consistency.

The urgency of this research is based on the need for companies to continuously innovate and maintain product quality in order to compete in an increasingly competitive market. Competition with other local brands, such as Ventela and Piero, as well as challenges from global brands such as Converse and Vans, drive the need for strategies that are more adaptive and responsive to changing consumer preferences.

The results show that although Compass' design innovations have been recognized by consumers, the use of technology in the production process is still a

major concern. Compass' product innovation, especially in terms of design, was well received by 68% of respondents who felt that Compass' shoe designs were attractive and innovative. However, only 55% felt that the technology used met international product standards. This indicates an imbalance between design innovation and the technology used in shoe manufacturing, which can affect consumers' perception of overall quality.

Another issue is the consistency of product quality. Some respondents expressed complaints about product durability, such as the rapid deterioration of the glue and materials used in some shoe models. These complaints indicate that Compass needs to focus more on tighter quality control, especially in the selection of materials and manufacturing processes. Inconsistent quality can disrupt consumer loyalty and lower the product's reputation in the market.

Based on the findings of this study, the solution that Compass can take to improve product quality and increase competitive advantage is to make improvements to production technology. For example, investing in new machinery and technology that enables a more precise and efficient production process can help reduce problems with product finishing, such as complaints related to glue deterioration. More advanced production technology can also improve product durability, which is one of the key factors valued by consumers.

In addition, Compass can also strengthen its research and development (R&D) program to continue to produce design innovations that are not only visually appealing, but also functional and durable. For example, by collaborating with designers or footwear technologists, Compass can produce products that are superior in terms of comfort and performance. Collaborations with local and international designers, such as the one with Japanese brand Neighborhood, can be an effective strategy to continue introducing product innovations that are relevant to market trends.

## CONCLUSION

This study aims to evaluate the effect of product innovation and product quality on the competitive advantage of Compass products. Based on the analysis conducted, it was found that both product innovation and product quality have a significant influence on competitive advantage. Product innovation contributes significantly to the creation of competitive advantage, especially in terms of design that is attractive to consumers, but still requires improvement in terms of technology. On the other hand, product quality is also an important factor that influences consumer perceptions of product durability and comfort, although there are still some complaints related to the durability of materials and finishing processes.

This study contributes to the existing literature by highlighting the importance of the balance between design and technological innovation in creating competitive products. In addition, this study adds insight into how local companies can improve their competitive advantage amidst increasingly fierce global competition. However, this study has limitations, particularly in terms of regional coverage and sample size which is limited to consumers in Bandung, so the results may not be fully representative for consumers in other regions or on a national scale.

For future research, it is recommended that the research be carried out with a wider scope and involve consumers from various regions in Indonesia, as well as considering other variables such as marketing strategies and prices. In addition, further research can explore technological aspects that can be used to improve the quality of local products so that they can compete in the global market.

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