

# **Influence of Customer Relationship Management and Product Innovation on Market Orientation, Competitive Advantage in Improving the Marketing Performance of Food Industry Small Businesses In East Java**

Nurlaely<sup>1</sup>, Andi Sularso<sup>2</sup>, Hotman Panjaitan<sup>3</sup>  
(<sup>1</sup>Doctoral Program at the University of August 17, 1945 Surabaya Indonesia)  
(<sup>2,3</sup>Lecturer at the University August 17, 1945 Surabaya Indonesia)  
Corresponding Author: Nurlaely

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**ABSTRACT:** This study investigated the effect of CRM and product innovation on market orientation, and competitive advantage in improving the marketing performance of the small food industry in East Java Bakorwil II. The population is a 9402 Small Food Industry entrepreneur, and a sample of 384 respondents (Slovin). The results of the study show that: Customer relationship management influences market orientation, competitive advantage, and marketing performance; Product innovation has no effect on market orientation, and marketing performance; Market orientation affects competitive advantage; Market orientation and competitive advantage affect marketing performance..

**KEY WORD:** CRM, Product innovation, market orientation, competitive advantage, marketing performance

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## **I. INTRODUCTION**

Lovelock, Wirtz and Mussry (2010), Sheth and Parvatiyar (2010), Kotler and Armstrong (2014), David (2009) argue that customer relationship management is a way and strategy of the company in fostering relationships with customers to achieve competitive advantage. Gatignon and Xuereb, (2007); Lukas and Ferrell, (2008) found that innovation is an important factor in achieving competitive advantage. Manirova's research (2014) found that customer focus was also an important factor in creating competitive advantage, and competitive advantage had an effect on marketing performance. Ferdinand's (2002) research shows that the company wants to produce superior performance for the company, so that market orientation influences marketing performance. This research will make customer relationship management and product innovation as factors that influence competitive advantage. This study will also make these four variables (customer relationship management, product innovation, market orientation and competitive advantage) as factors that affect the performance of small-scale food and beverage industry marketing in East Java.

Small businesses The food and beverage industry in East Java have experienced a significant turnover in the Ramadhan months. Demand is very high due to the many requests ahead of Eid. The performance of large manufacturing industries in the entire East Java region during the second quarter of 2016 experienced a significant increase of 4.56 percent. The biggest realization was contributed by the increase in the East Java food and beverage industry, which reached 14.37 percent (Deperindag East Java, 2017). Food and beverages are the main anchors of human activities that are very culture base, local content base. The food and beverage industry in East Java must be strengthened and provide the greatest added value and not change the culture, because of the import of imported goods.

The number of small businesses in the food industry in East Java is growing rapidly and is spread in many cities / districts, therefore this research is focused on the Bakorwil II region. The number of small businesses in the food industry, especially in Bakorwil II East Java. Based on the explanation, this study seeks to answer the problem of how to create competitive advantage to improve marketing performance.

## **II. LITERATURE REVIEW AND HYPOTHESES**

### **2.1 Customer Relationship Management**

Customer relationship management (CRM) is the process of building and maintaining relationships with profitable consumers by providing products that are very valuable to consumers and making consumers satisfied (Kotler and Armstrong, 2014). CRM is a way for companies to build relationships with customers with the aim of maintaining customer loyalty and commitment to keep using the company's products in question (Schiffman and Kanuk, 2008).

## 2.2 Product Innovation

Product innovation is a variable which is a breakthrough related to the creation of new products. Product innovation is a cumulative process that involves the emergence of ideas, evaluation of ideas, product development, and the level of product introduction. Product innovation reflects the organization's response to the needs of outsiders (Lukas and Ferrell, 2008).

## 2.3 Market Orientation

Market orientation is a set of concrete actions that enable companies to maintain variations in market demand and supply and provide appropriate responses to various changes that occur (Kotler, 2015; Ferdinand, 2002).

## 2.4 Competitive Advantage

Competitive advantage is a variable that is the ability of a company to create 'superior value' to face competition a breakthrough that is related to the creation of new products (Porter, 2007; Bharadwaj et al., 2013).

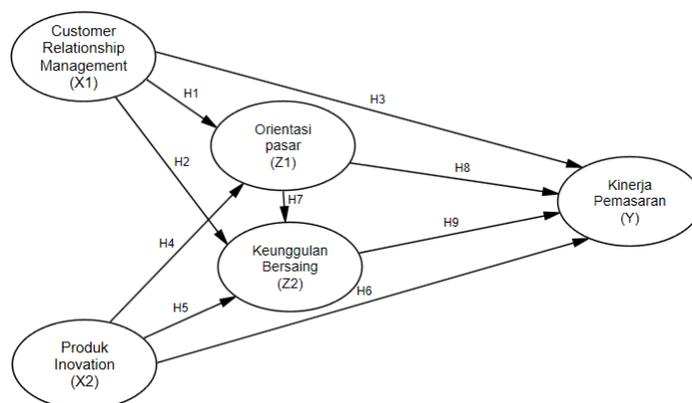
## 2.5 Marketing Performance

Marketing performance is a variable which is a factor that is often used to measure the impact of a strategy applied by a company viewed from its marketing aspect (Voss and Voss, 2010; Drucker, 1991).

## 2.6 Research Framework and Hypothesis

Based on the literature review and discussion described earlier, can a research framework be developed that explains the relationship between research variables. Fig. 1 illustrates the relationship between customer relationship management, product innovation, market orientation, competitive advantage and marketing performance.

**Figure 1: Research Framework**



In this study the proposed hypothesis is as follows:

1. Customer relationship management has a significant effect on market orientation.
2. Customer relationship management has a significant effect on competitive advantage.
3. Customer relationship management has a significant effect on marketing performance.
4. Product innovation has a significant effect on business market orientation.
5. Product innovation has a significant effect on competitive advantage.
6. Product innovation has a significant effect on marketing performance.
7. Market orientation has a significant effect on competitive advantage.
8. Market orientation has a significant effect on marketing performance.
9. Competitive advantage has a significant effect on marketing performance.

## III. RESEARCH METHODES

This study uses a questionnaire instrument. To measure data used Likert Scale, analysis using SEM. The study population was employees and small business owners of the food industry in Bakorwil II (Bojonegoro, Lamongan, Tuban, Jombang, Mojokerto, and Kediri) in East Java, a total of 9,402, and a sample of 384 (Slovin). Variable Customer relationship management uses 3 indicators, namely: individual marketing, sustainable marketing, and product innovation (Sheth, Wirtz and Mussry, 2010). Product Innovation variables, use 3 indicators, namely: innovation culture, technical innovation, and product innovation (Wahyono, 2012;

Han, Kim and Srivastava, 2008).. Product Innovation variables, use 3 indicators, namely: innovation culture, technical innovation, and product innovation (Wahyono, 2012; Han, Kim and Srivastava, 2008). Variables, Market orientation uses 3 indicators, namely: customer orientation, competitor information, and cross-functional coordination (Jaworski and Kohli, 2006, Minto, 2005). Competitive variables compete using 4 indicators, namely: product uniqueness, imitability, or difficult to imitate, product quality and competitive prices (Droge and Vickery, 2009; Song and Parry, 2007). Variable marketing performance uses 4 indicators, namely: sales volume, the sales growth rate, customer growth and profitability (Bharadwaj et al., 2013; Zhou et al., 2009; Ferdinand, 2012).

**IV. PRESENTATION OF RESULT AND DISCUSSION OF FINDINGS**

Descriptive data analysis of 384 respondents showed that: Characteristics of respondents based on gender of most women, namely 50.5% compared to men 44.5%. Characteristics of respondents based on age, can be seen that the dominant age range of 36-50 years is 58.8%, in the age range of 20-35 years is 11.89%, and in the age range > 50 years is 29.4%. The education level of the majority of respondents was a diploma, which reached 34.4%, undergraduate education was 34.1, while secondary school graduates were 31.5%. Characteristics of respondents based on business duration can be seen that the dominant respondents between 3-5 years are 41.5%, and the range is less than 1 year at 24.5%, 1-3 years at 22.7%, and greater than 5 years 11, 5%.

**Table 1: Characteristics of respondents (N = 384)**

| Characteristics          |             | Frequency | Percent |
|--------------------------|-------------|-----------|---------|
| Gender                   | Men         | 190       | 49,5    |
|                          | Women       | 194       | 50,5    |
| Age (years)              | < 20        | -         | -       |
|                          | 20 – 35     | 45        | 11.8    |
|                          | 36-50       | 226       | 58.8    |
|                          | >50         | 113       | 29.4    |
| Level of education       | High school | 121       | 31,5    |
|                          | diploma     | 132       | 34,4    |
|                          | Bachelor    | 131       | 34,1    |
| Long time doing business | < 1 tahun   | 94        | 24,5    |
|                          | 1-3 tahun   | 87        | 22,7    |
|                          | >3-5 tahun  | 159       | 41,4    |
|                          | > 5 tahun   | 44        | 11,5    |

**4.1 Test of research instruments**

**Validity Test**

From the result of Pearson product moment correlation, it is known that all question items in the questionnaire have a significant correlation at the error rate of 5%, so it can be said all the question items are valid.

**Table 2: Validity and Reliability Test**

| Research variables               | Indicator | Question Number | Pearson correlation | Coefficient Alpha (α) |
|----------------------------------|-----------|-----------------|---------------------|-----------------------|
| Customer Relationship Management | CRM1      | 01-03           | 0.841**             | 0,825                 |
|                                  | CRM2      | 04-06           | 0.809**             |                       |
|                                  | CRM3      | 07-09           | 0.883**             |                       |
| Product Inovation                | Ino1      | 10-12           | 0.876**             | 0,761                 |
|                                  | Ino2      | 13-15           | 0.856**             |                       |
|                                  | Ino3      | 16-18           | 0.856**             |                       |
| Market Orientation               | Ori1      | 19-21           | 0.761**             | 0,716                 |
|                                  | Ori2      | 22-24           | 0.848**             |                       |
|                                  | Ori3      | 25-27           | 0.820**             |                       |
| Competitive Advantage            | Keu1      | 28-30           | 0.946**             | 0,785                 |
|                                  | Keu2      | 31-33           | 0.757**             |                       |
|                                  | Keu3      | 34-36           | 0.907**             |                       |
|                                  | Keu4      | 37-39           | 0.797**             |                       |
| Marketing Peformance             | Kinerja1  | 40-42           | 0.767**             | 0,836                 |
|                                  | Kinerja2  | 43-45           | 0.772**             |                       |
|                                  | Kinerja3  | 46-48           | 0.812**             |                       |
|                                  | Kinerja4  | 49-51           | 0.777**             |                       |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Reliability Test**

With cronbach alpha test ( $\alpha$ ) in this research indicate that all research variables are reliable, because all of alpha coefficient value from each research variable is bigger than standardized (0,6), so that each question item in measurement instrument can Used. The value of corrected total correlation items of all question items is greater than 0.3.

**4.2 Confirmatory factor analysis.**

Table 3, shows the overall results of confirmatory factor analysis / construct validity on the research measurement model. Construct validity and reliability are two tests to evaluate the ability of measurable variables in forming latent variables, in the Table below all manifests have a loading factor with a probability of less than 0.05, meaning significant in forming latent variables. It is also seen that each latent variable has a critical ratio construct of more than 0.2, which means it comes from one dimension (unidimensional).

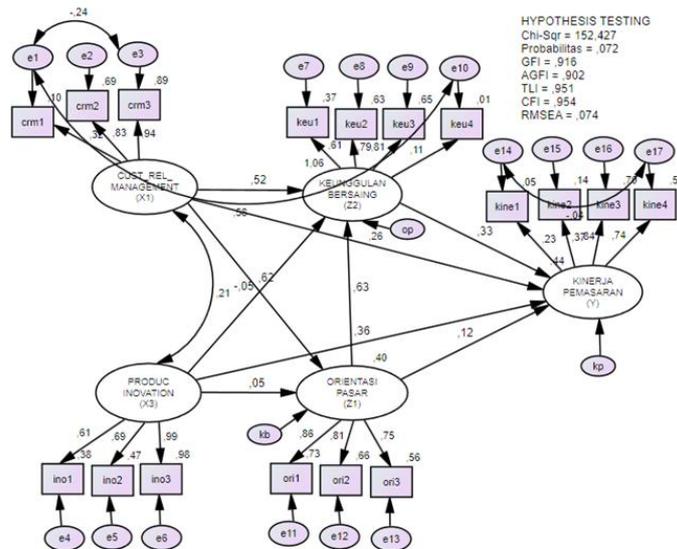
**Table 3: Confirmatory Factor Analysis**

| Research variables               | Relationship   | C. R.  | Loading Factor ( $\lambda$ ) | Probability |
|----------------------------------|----------------|--------|------------------------------|-------------|
| Customer Relationship Management | CRM→crm1       | Ref    | 0,433                        | 0,000       |
|                                  | CRM→crm2       | 6,448  | 0,946                        | 0,000       |
|                                  | CRM→crm3       | 6,992  | 0,846                        | 0,000       |
| Product Inovation                | Inov→Ino1      | Ref    | 0,627                        | 0,000       |
|                                  | Inov→Ino2      | 9,861  | 0,656                        | 0,000       |
|                                  | Inov→Ino3      | 8,690  | 1,000                        | 0,000       |
| Market Orientation               | Orientasi→Ori1 | Ref    | 0,760                        | 0,000       |
|                                  | Orientasi→Ori2 | 12,939 | 0,855                        | 0,000       |
|                                  | Orientasi→Ori3 | 12,897 | 0,843                        | 0,000       |
| Competitive Advantage            | Unggul→Keu1    | Ref    | 0,507                        | 0,000       |
|                                  | Unggul→Keu2    | 5,985  | 0,416                        | 0,000       |
|                                  | Unggul→Keu3    | 4,252  | 0,961                        | 0,000       |
|                                  | Unggul→Keu4    | 3,284  | 0,263                        | 0,000       |
| Marketing Peformance             | Kinerja→Kine1  | Ref    | 0,508                        | 0,000       |
|                                  | Kinerja→Kine2  | 5,216  | 0,508                        | 0,000       |
|                                  | Kinerja→Kine3  | 12,422 | 0,843                        | 0,000       |
|                                  | Kinerja→Kine4  | 12,452 | 0,828                        | 0,000       |

**4.3 Goodness of Fit Test**

The results of processing data using a sample of 384 shows Chi-square is 152,457 with a probability of 0.072. Meanwhile, from GFI, AGFI, TLI, CFI, RMSEA and CMIN / DF were 0.916, 0.902, 0.951, 0.954, 0.074 and 1,411 all in the range of acceptable values. The results are shown in Table 4 and Fig. 2.

**Figure 2: Coefficient of Research Model Path**



**Table 4: Evaluation the fit indices**

| Indices   | Amounts reported |
|---|------------------|
| Chi Square                                      | 152.457          |
| P Value   | 0,072            |
| GFI (Goodness of Fit Index)                     | 0.916            |
| AGFI (Adjusted Goodness of Fit Index)           | 0.902            |
| TLI ( <i>Tucker Lewis Index</i> )               | 0,951            |
| CFI (Comparative Fit Index)                     | 0.954            |
| RMSEA (Root Mean Square Error of Approximation) | 0.074            |
| CMIN / DF                                       | 1,411            |

#### 4.4 Hypothesis testing

Hypothesis testing is based on the estimated significance value of the research model parameters shown in Table 5.

**Table 5: Hypothesis Testing**

| H  | Relationship          |   | Path coefficient      | CR     | P      | Decision |          |
|----|-----------------------|---|-----------------------|--------|--------|----------|----------|
| H1 | CRM                   | → | Market Orientation    | 0,621  | 2,545  | 0,000    | accepted |
| H2 | CRM                   | → | Competitive Advantage | 0,523  | 2,946  | 0,000    | accepted |
| H3 | CRM                   | → | Marketing Performance | 0,263  | 2,589  | 0,000    | accepted |
| H4 | Product Inovation     | → | Market Orientation    | 0,053  | 0,582  | 0,560    | reject   |
| H5 | Product Inovation     | → | Competitive Advantage | -0,050 | -0,994 | 0,320    | reject   |
| H6 | Product Inovation     | → | Marketing Performance | 0,364  | 2,091  | 0,000    | accepted |
| H7 | Market Orientation    | → | Competitive Advantage | 0,626  | 5,709  | 0,000    | accepted |
| H8 | Market Orientation    | → | Marketing Performance | 0,118  | 2,291  | 0,001    | accepted |
| H9 | Competitive Advantage | → | Marketing Performance | 0,333  | 2,430  | 0,000    | accepted |

Table 5, informs that: There is an influence of CRM on market orientation of 0.621, with the value of CR 2.545 and the value of P = 0,000. This shows that H1 is accepted. There is a CRM effect on competitive advantage of 0.523, with a CR value of 2.946 and a value of P = 0.000. This indicates that H2 is accepted. There is the influence of CRM on marketing performance of 0.263, with a value of CR 2.589 and a value of P = 0,000. This shows that H3 is accepted. There is the effect of product innovation on market orientation of 0.053, with a value of CR0.582 and a value of P = 0.560. This indicates that H4 is rejected. There is the effect of product innovation on the competitive advantage of -0.050, with a CR value of -0.994 and P value = 0.320. This shows that H5 is rejected. There is the effect of product innovation on marketing performance in 0.364, with the value of CR 2.091 and the value of P = 0.000. This indicates that H6 is accepted. There is an influence of market orientation on competitive advantage of 0.626, with a value of CR 5.709 and P value = 0.320. This shows that H8 is accepted. There is the effect of competitive advantage of marketing performance in 0.333, with a value of 2.430 CR and a value of P = 0.000. This shows that H9 is accepted.

The influence of explanatory variables can be studied further to get a more comprehensive discussion of the results of the study, then the results of this study are explained as follows:

#### **Customer Relationship Management Affects the Market Orientation**

Accepted hypothesis 1, this indicates that CRM contributed to the Market Orientation of 62.1%. From the factor analysis, it is known that the dominant factor that forms, CRM is individual marketing, meaning that Food Industry Small Business entrepreneurs prefer individual marketing from the implementation of CRM strategies because companies are able to quickly serve customers, companies are able to handle complaints from customers individually, and companies always provide a greeting card at a special moment for each customer. The dominant indicator of continuous marketing of CRM variables in this study, it is better if the Food Industry Small Businesses deserve more attention to sustainable marketing indicators, because sustainable marketing is the very dominant influence on CRM. This can be done by continuously implementing CRM programs in order to increase customer loyalty, through special services that are long-term in nature, to increase value through mutual learning of each character. The results of this study are in line with the findings of Baharudin and Yohanes (2016); Djunaedi et al. (2017).

#### **Influential Customer Relationship Management Against Competitive Advantage**

Accepted hypothesis 2, this shows that CRM contributes to a competitive advantage of 52.3%. CRM programs require communication between companies and related parties that support the company in carrying out its business. Communication that is established is not one direction, but dialogue is needed, which involves two or more parties in the process of giving and receiving information. In addition, companies should communicate directly. This is necessary given the increasingly complex needs, desires and quality standards that

consumers want in the products needed. The results of the study are in line with the findings of Dewi and Devi (2012); Panjaitan (2013).

#### **Customer Relationship Management Influences On Marketing Performance**

Accepted hypothesis 3, this shows that CRM contributes to marketing performance by 26.3%. The results of this study are in line with the findings of Baharudin and Yohanes (2016) which prove that CRM and the quality of business strategies have a significant positive effect on competitive advantage to improve company performance. The results of the study are also in line with the findings of Dewi and Devi (2012) which prove the influence of CRM on company performance where good implementation of CRM will be able to improve company performance, both from financial and operational performance.

#### **Product Innovation Influences Market Orientation**

Not accepted hypothesis 4, this shows that product innovation does not contribute to market orientation. The Food Industry Small Business in the East Java Bakorwil II can be seen in fact is a business with a capital that is not large, this results in a lack of innovation in business products. What happens is that food industry entrepreneurs have very little product innovation. Products that are manufactured continuously from year to year without any product changes. Therefore the contribution of the influence of product innovation variables on market orientation is very small. Companies should adapt and innovate continuously. The results of the study are different from the findings of Adelina, James and Imelda, (2016) which state that, product innovation influences marketing performance.

#### **Influential Product Innovations Against Competitive Advantages**

Not accepted hypothesis 5, this shows that product innovation does not contribute to competitive advantage. Innovation is a successful implementation of a creative idea in an organization. While the power of innovation at the level of speed of individuals in adopting new ideas compared to other members in a system. With continuous innovation, the competitive advantage of business with competitors will also increase. Without product innovation, competitive advantage will also not exist. In the Food Industry Small Business in East Java Bakorwil II, product innovation has not yet taken place, thus the effect of product innovation on competitive advantage has not yet been seen. The results of this study are different from Agung's findings (2006); Droge and Vickery, (1994) that prove competitive advantage can be created by product innovation.

#### **Influential Product Innovation on Marketing Performance**

Acceptance of hypothesis 6, this shows that product innovation contributes to marketing performance 36.4%. From the factor analysis, it is known that the dominant factor that forms product innovation in Small-scale Food Industry is innovation culture, meaning that with the innovation culture in the company, the company can excel with competitors, the company always creates new products, which follow market tastes, and the company has a product innovation culture, where products always keep up with the times. The results of this study are in line with the findings of Sensi (2006); Zou, Brown and Dev, (2009) stated that product innovation resulted in higher marketing performance.

#### **Influential Market Orientation Against Competitive Advantage**

Acceptance of hypothesis 7, this indicates that the product orientation contributes to the competitive advantage of 62.6%. From the analysis of market orientation indicator factors, it is known that the dominant factor that forms the market orientation in Food Industry Small Business in East Java Bakorwil II is customer orientation, meaning that Food Industry Small Business entrepreneurs prefer customer orientation from the implementation of market orientation strategies because marketing managers always ask customer information about food that consumers expect, marketing managers always pay attention to customer information about the food needed, and marketing managers always prepare products according to customer information. The results of this study are in line with Agung's findings (2006); Heri (2012) concluded that market orientation factor variables have a significant effect on competitive advantage.

#### **Influential Market Orientation on Marketing Performance**

Accepted hypothesis 8, this indicates that market orientation contributes to marketing performance by 11.8%. The results of the study are in accordance with Kotler's (2015) statement that market oriented strategic planning is a managerial process of development and care between organizational objectives, skills and resources and changes in market opportunities. The aim of this strategy is to shape the company's business and products so that they are able to achieve profit and growth targets. The results of this study are in line with Sensi (2006); Heri (2012).

### **Competitive Advantages Influence on Marketing Performance**

Acceptance of hypothesis 9, this shows that competitive advantage contributes to marketing performance by 33.3%. From the factor analysis, it is known that the dominant factor that forms competitive advantage in Small-scale Food Industry is competitive prices, meaning that respondents prefer competitive prices from the implementation of competitive advantage strategies because companies are able to sell with lower price advantages, the company is able to create services, which are better compared to other traders, and companies have trading capabilities that are rarely owned by other companies. The results of this study are in line with the findings of Teguh and Devie, (2013); Li (2010) which shows the existence of a relationship of competitive advantage with marketing performance.

### **V. CONCLUSIONS AND RECOMMENDATIONS**

From the results of testing of the model in this study, it was able to explain the relationship between CRM variables, product innovation, market orientation, competitive advantage and the marketing performance of the food industry, small businesses in East Java Bakorwil II. The conclusions of the research results are: CRM influences market orientation, competitive advantage, and marketing performance; Product innovation has no significant effect on market orientation, and also on competitive advantage; Product innovation has a significant effect on marketing performance; Market orientation influences competitive advantage, and marketing performance; Competitive advantage influences marketing performance.

Suggestions for food industry entrepreneurs in East Java Bakorwil II to continue to pay attention and improve product innovation and market orientation, because these two variables have not been able to support competitive advantage and marketing performance, so it is very necessary to improve. To other researchers, it is suggested to examine further the factors that influence product innovation and market orientation, which have an impact on competitive advantage and the performance of small-scale food industry marketing businesses. Given the many factors that influence competitive advantage and marketing performance, which are not only related to the variables discussed in this study.

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