

Product Innovation in Increasing Customer Loyalty in MSMEs Weaving Ikat Mas Medal in Kediri City

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Article Information		Abstract
Submission date	: January 3, 2025	<p>Research aim: This research explores the role of product innovation in increasing customer loyalty in the Medali Mas Ikat Weaving UMKM, Kediri City.</p> <p>Design/Method/Approach: Using a qualitative case study approach, data was collected through interviews, observation and documentation.</p> <p>Research Finding: Findings show that innovations such as modernizing traditional designs, diversifying products (e.g., bags and accessories), and incorporating sustainable materials are critical in fostering loyalty.</p> <p>Theoretical contribution/Originality: Customers value the blend of tradition and modernity, digital accessibility and personalized service. Telling stories about product heritage and sustainable practices strengthens emotional bonds, while positive purchasing experiences build lasting relationships.</p> <p>Practitionel/Policy implication: This research highlights the importance of integrating cultural preservation with contemporary market demands, offering practical insights for MSMEs to use digital marketing, sustainable practices and designer collaboration to increase customer engagement and loyalty.</p> <p>Research limitation: Limitations include the focus on one MSME, which suggests opportunities for broader comparative studies in future research.</p> <p>Keywords: Product Innovation, Customer Loyalty, Traditional Crafts, Sustainable Practices, Digital Marketing.</p>
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1. Introduction

1.1. Problem Statement

In an effort to excel in business competition, Business Actors, including MSMEs, must be able to present quality products, be disciplined, focused, creative, innovative, able to see opportunities and dare to take risks. Entrepreneurs are required to have *Skill* Specially, the knowledge of planning, processing in a unique way, being able to offer creative and innovative products so that they are ready to compete in an increasingly

competitive market. Customers will be loyal to using a product, both goods and services, when they feel satisfied. One of the sources of customer satisfaction is because of product quality, because this is fundamental to the creation of consumer satisfaction and is also a natural factor in winning market competition. Satisfied consumers are the creation of loyalty, which in the long term will have a positive impact on the company's life cycle, which will make the company will survive in a long position of maturity. Satisfaction or dissatisfaction is the difference between what consumers expect and the performance that consumers feel after using the goods or services they buy [1].

MSMEs in Kediri City face serious challenges in maintaining customer loyalty amid increasingly fierce market competition and dynamic changes in consumer preferences. One of the main problems is the increasing customer expectations for product variety and innovation, while most MSMEs in this sector still rely on traditional production patterns and designs. Another phenomenon that strengthens this problem is the emergence of new competitors with more modern products and competitive prices, thus threatening the market share that has been achieved. Because consumers now have more access to a wider range of product options thanks to digital platforms, client loyalty is becoming a more important concern. A customer is said to be loyal if they regularly make purchases from a business or at least purchase its goods or services at least twice throughout a specific time frame. Here, being a loyal customer means more than just making a single purchase; it also means pledging to keep using a business's goods or services. [2]. Without relevant product innovation, MSMEs like Tenun Ikat Medali Mas risk losing their loyal customer base, which can impact business continuity. In certain instances, customers have a tendency to switch to other brands that offer more value, both in terms of innovation, quality, and user experience [3].

One of the tactical ways to solve this issue is through product innovation. In addition to aesthetics, such new motif patterns, innovation in the ikat weaving sector also emphasizes functionality, the use of eco-friendly materials, and product diversity to appeal to a larger market. Product innovation can boost attractiveness and added value, according to research, which can eventually motivate consumers to stick with a specific brand. As a result, it's critical to comprehend how much product innovation can boost client loyalty in MSMEs in Ikat Weaving Medali Mas. It is anticipated that this research will offer strategic advice for MSMEs to survive and prosper in the face of global competition by identifying current trends and examining the role of innovation in creating new value for customers. [4].

Prior studies have demonstrated the importance of product innovation in fostering client loyalty. According to a study by Herlin Indahtia (2023), businesses that prioritize innovation are more likely to keep clients than those that don't [5]. Innovations tailored to consumer requirements not only boost product attractiveness but also deepen consumers' emotional bond with the brand, according to a different Marianus et al. (2021) study [6]. Innovation in MSMEs is frequently hindered by scarce resources, such as restricted access to finance or technology.[7].

The dearth of studies that explicitly examine how product innovation can impact consumer loyalty in the creative industry sector—particularly in ikat weaving—represents a research gap. Most studies focus only on the innovation aspect in general, without diving into the unique characteristics of the industry. Therefore, this study aims to answer this gap by deeply examining the role of product innovation in increasing customer loyalty in

MSMEs in Medali Mas Ikat Weaving. With this approach, it is hoped that relevant findings can be produced for the development of business strategies in the creative industry sector.

This research focuses on an in-depth analysis of how product innovation in the ikat weaving industry sector that combines traditional and modern aspects can increase customer loyalty. The fundamental difference from previous research lies in the contextual and specific approach to the traditional creative industry in Indonesia. So the researcher took the title 'Product innovation in increasing customer loyalty in MSMEs weaving gold medals in Kediri city'. Because, this research explores the dimensions of innovation relevant to the ikat weaving industry, such as the development of motifs that are adaptive to market trends, the use of environmentally friendly materials, and product diversification in accordance with market segmentation. Thus, this research not only answers the research gap, but also offers strategic insights that are applicable to MSMEs in similar sectors.

1.2. Problem Formulation

1. How is product innovation applied in MSMEs Weaving Ikat Mas?
2. What are the elements of innovation that are considered important by customers and how do they affect customer loyalty to MSMEs Weaving Ikat Medali Mas?
3. What strategies are used by Medali Mas Weaving Ikat MSMEs to create product innovations, and how do these innovations affect long-term relationships with customers?

1.3. Research Objectives

1. Dig deeply into how product innovation is applied in MSMEs Weaving Ikat Medali Mas.
2. Understand the customer's perspective on the elements of innovation that affect their loyalty.
3. Explore the strategies that MSMEs use to create product innovations and their impact on long-term relationships with customers.

2. Literature Review

2.1. Consumer Loyalty

Loyalty is vital to the long-term resilience of an organization, as loyal customers can benefit the organization. Organizations should have the option to decide on the right techniques to make customers more loyal so that the organization can survive. According to Panjaitan and Setyorini (2019) [8], customer loyalty is the interest to continuously buy from the seller over a long period of time, by using or purchasing products and services offered repeatedly, as well as voluntarily recommending such products or services to others. This shows the level of trust that the client has in the manufacturer or company. From this explanation, it can be concluded that customer loyalty will bring in more buyers and contribute to an increase in the company's revenue. To maintain customer loyalty, manufacturers or companies need to build good relationships with their clients, by rewarding loyal customers for the goods or services they offer.

2.2. Innovation

Crawford and De Benedetto (2000: 9) stated that product innovation is an innovation used in the entire operation of a company where a new product is created and marketed, including innovation in all functional processes. Product innovation is something that can be seen as a functional advancement of a product that can take the product one step further compared to its competitors' products. Products that have advantages have added value for consumers. Neely et. Al., (1995) argues that product innovation refers to the development and introduction of new or developed products that are successful in marketing. Product innovation can be in the form of changes in product design, components and architecture. Drucker (1954, in Berthon et. al., 1999) stated that product innovation is one of the potential things to create people's thoughts and imaginations which ultimately create customers. So with the creation of product innovation, it is expected to be able to adapt to the market, technology, and competition [9].

Good innovation will help management in achieving better performance so that the continuity and sustainability of the business will also continue to run in accordance with the company's goals because of the support of innovation capabilities consisting of ideas, new products and others (Hult, Hurley, & Knight, 2004). A study conducted by Ojasalo (2008) states that innovation is divided into three types, namely product innovation has the meaning of generating income, process innovation provides means to maintain and improve quality and to save costs, while market innovation increases the target market of the mix and chooses the best market that must be served by the company [10].

The main purpose of the company in innovating products is to meet market demand so that innovative products are one that can be used as a competitive advantage for the company. Companies must have innovative products so that product sales are high and have an advantage in competition. Therefore, the company is required to provide new thinking, new ideas and offer innovative products and improve services in order to satisfy consumers.

2.3. Elements of Innovation

According to Harvard's Theodore Levitt in Suryana (2014:43) [11], entrepreneurship is thinking and acting on something new, or thinking about something old in a new way. Product innovation consists of several main elements that support each other in creating added value and product competitiveness. One important element is product functionality, which focuses on how the product can meet a need or solve a consumer problem. Innovation in this element involves developing new features or improving existing functions, so that the product becomes more efficient, practical, and relevant for users. In addition, design and aesthetic elements are also very influential, as the visual appearance, shape, and ease of use can attract consumers' attention and create a positive experience. Innovative design is often the main differentiating factor in market competition.

Another element is quality and sustainability, which includes durability, reliability, and the use of environmentally friendly raw materials. Superior quality can increase customer trust, while sustainability reflects a company's responsibility to the environment, which is now a major concern for modern consumers. Finally, packaging and labeling are also important elements in product innovation. Practical, attractive, and informative packaging not only protects the product, but also helps convey the brand's values and message to consumers. By integrating these four elements, companies can create products

that are not only functionally superior, but also aesthetically appealing, sustainable, and relevant in the market.

2.4. Innovation Strategy

According to (Wahyudi et. al., 2023)[12] Innovative products not only attract consumer interest, but can also provide significant differentiation compared to competing products. In this context, companies are required to not only follow market trends, but also be pioneers in creating relevant innovations. In order to satisfy consumer demands, boost competitiveness, and offer value for customers, a product innovation strategy focuses on creating new products or enhancing current ones. This tactic may involve alterations to the product's features, design, functionalities, raw materials, or even packaging. In-depth market research, the discovery of consumer trends, and the application of cutting-edge technology are frequently the driving forces behind product innovation.

This strategy's primary objective is to produce outstanding and pertinent products that will grab consumers' attention and foster greater customer loyalty. The business can expand into new market niches, improve its standing in the industry, and boost sales with creative items. Additionally, by offering distinctive and customer-focused solutions, product innovation methods might aid businesses in surviving in the face of escalating competition.

3. Method

3.1. Place and Time of Research

The Medali Mas Ikat Weaving MSMEs, which are renowned as the hub of traditional ikat weaving manufacturing, were the subject of the study. They are situated on Jalan Kh. Agus Salim No. 47 in Kediri City.

3.2. Research Approach

The implementation of product innovation in MSMEs Weaving Ikat Medali Mas and its effect on customer loyalty are thoroughly examined in this study using a qualitative approach and a case study methodology. This method enables researchers to comprehend the background, viewpoints, and experiences of MSME management and customers when they confront innovation strategies and obstacles.

The constructivism paradigm, which emphasizes understanding social reality via the perspective of those involved, is used in this study's qualitative approach. Due to the fact that the current social and cultural context has a significant impact on the perceptions and experiences of MSME owners and customers, this paradigm is highly pertinent to the research being conducted. Researchers can gain a deeper understanding of the dynamics of consumer loyalty and product innovation in a particular local context—MSMEs Weaving Ikat Medali Mas in Kediri City—by using this method.

3.3. Research Subject

Two groups make up the study's subjects: MSME owners and managers, who are knowledgeable about the implementation of new products and strategies, and MSME customers, who are chosen based on their brand trust and past product purchases.

3.4. Data Collection Techniques

This study collects data through observation, documentation, and interviews.

3.4.1. Conversation

A discussion between two or more individuals that occurs between a participant and a researcher with the intention of gathering information is called an interview [13]. Interviews were performed with two informant groups:

1. conducting interviews with MSME managers or owners to learn more about the approach used for product innovation, the rationale behind the innovations chosen, and their perceptions of the innovations' effects on customer interactions.

Number of Informants: 3-5 people (depending on who is involved in the decision-making process related to product innovation).

Time: Interviews will be conducted in 1 to 1.5 hours per session, and can be conducted at MSME locations or places that are convenient for managers.

2. Interviews with customers who have purchased the product more than once in the past year. This interview aims to explore their understanding of the elements of innovation that they find interesting, as well as how they influence their decision to continue buying products and become loyal customers.

Number of Informants: 10-15 customers.

Time: The interview is conducted in a place that allows for comfortable interaction, such as in the MSME living room or online. The duration of the interview is about 30-60 minutes.

Here are 5 interview questions for Mas Medal Ikat Weaving customers that are more focused on the customer loyalty aspect:

3.4.2. Observation

Observations are carried out at production sites and customer interactions to see firsthand how the innovation process is applied in production and how customers respond to product innovations. This observation aims to understand the dynamics of innovation that are not reflected in the interviews [14].

Observations were made at the production site of the Mas Medal Ikat Weaving, as well as at MSME stores or stands that sell products, during MSME operating hours, which include morning to evening on weekdays and weekends, depending on the time of the most customer interaction. The duration of the observation will last for two weeks, with 3-4 observation sessions, each about 2-3 hours. The purpose of this observation is to understand the interaction between MSME managers and customers, as well as the product innovation process applied in a natural social environment.

3.4.3. Documentation

This technique refers to the collection of data objects being researched such as documents, artifacts, archival records, videos, or social media information. The collection was carried out while in the field. Each object collected can generate a

variety of verbal, numerical, graphic, and image data[15]. Information gleaned from observations and conversations is enhanced by documentation.

Customer reviews and testimonials from online platforms or social media about the newest innovative products offered by MSMEs, as well as product records and images showcasing the innovations used, like new designs or materials, and product modifications or adjustments made to try to win over more customers, are examples of documentation data.

4. Results and Discussion /Information and Conversation

4.1. Utilizing Product Innovation in MSMEs to Weave the Ikat Mas Medal

In MSMEs Weaving Ikat Medali Mas, product innovation is applied through the creation of designs and motifs that follow market trends, including fusing traditional motifs with contemporary elements. Creating additional products, such clothing or accessories, using ikat weaving, as well as offering unique pieces for cultural events or limited collections, are further ways to diversify your product line. Along with the use of contemporary technology for efficient production and ecologically responsible dyeing, material innovations like the use of natural dyes for sustainability or synthetic fibers for durability are also significant. as the findings of an owner interview about the created innovations. As the proprietor of MSMEs Weaving Ikat Medali Mas, we keep innovating by creating contemporary themes while retaining traditional components. To reach a larger market, we also broaden our product line to include accessories and bags. We wish to keep promoting ikat weaving as a cultural heritage while bringing our products closer to customers through digital marketing and customisation options.



Picture 1. Mas Medal Ikat Weaving Products

The Mas Medali Ikat Weaving MSME's owner is dedicated to embracing innovation in order to keep expanding. They keep traditional cultural values while producing designs that are in line with contemporary trends. To reach more customers, they are also producing a wider range of goods, including clothing and accessories.

4.2. Application of Innovation Elements

Methodology In an increasingly competitive market, the ikat weaving MSME sector can boost the competitiveness and relevance of its goods by implementing the four components of product innovation. Every component plays a vital role in ensuring that ikat

weaving products can adapt to changing consumer preferences and market trends in addition to meeting consumer needs.

a. Product Functionality

Functional innovations for ikat weaving MSMEs can take the shape of product diversification to satisfy different customer demands, like including ikat-woven clothing or accessories. For instance, contemporary-designed clothing can be created in conjunction to traditional items like shawls and textiles.

b. Design and Aesthetics

Particularly in a market that is younger and more stylish, design plays a significant role in drawing in customers. Ikat weaving MSMEs can maintain the distinctiveness of traditional designs while embracing a more modern or minimalistic style. Another tactic to bring ikat weaving to the world market is to collaborate with regional or international designers to produce collections with more contemporary or foreign themes. By fusing traditional art components with the newest current trends, this appealing visual feature adds value to the product.

c. Quality and Sustainability

By employing eco-friendly local raw materials, natural dyes, and effective production methods, Ikat weaving MSMEs can include sustainability into their production process. Product durability can be increased and more robust items can be produced through innovation in quality components. This promotes the sustainability of the ikat weaving sector as a whole in addition to enhancing the product's standing with environmentally conscious customers.

d. Packaging and Labeling

One of the significant improvements in the ikat weaving MSME sector is packaging that is both aesthetically pleasing and eco-friendly. In addition to promoting sustainability, packaging made of recycled or recyclable materials enhances the brand's reputation. Furthermore, labeling that tells the tale of ikat weaving's distinctiveness, its provenance, and its production method can evoke strong feelings in customers, elevating the product's perceived cultural worth and uniqueness.

4.3. Mas Medal Ikat Weaving in Creating Product Innovation

A crucial first step in helping businesses comprehend the wants and demands of their customers is conducting in-depth market research. Businesses can investigate gaps and opportunities for product development that are more in line with consumer preferences by conducting customer interviews and analyzing market trends. According to the study's findings, buyers choose goods that blend contemporary style with classic components. Thus, one of the primary tactics is product diversification, which involves developing new product categories including clothing, accessories, and bags using the fundamental materials used in ikat weaving.

Another significant element in reaching a larger audience with new products is the utilization of digital technologies. Digital data analysis enables businesses to track market trends and client input in real-time, while social media and e-commerce platforms are emerging as powerful avenues for boosting product visibility. Working together with designers and business partners is another tactic that enhances the outcomes of innovation and produces goods that are unique and appealing to a certain market niche. Additionally, focusing on sustainability through the use of environmentally friendly materials and ethical production methods adds a great deal of value, drawing in clients who are

concerned about social and environmental issues and enhancing the reputation of the brand.

4.4. Innovation's Effect on Long-Term Customer Relationships

By satisfying consumers' wants and expectations, ongoing product innovation helps improve enduring relationships with clients. While personalization and a distinctive shopping experience strengthen emotional attachment, relevant, high-quality products produce a positive experience that boosts loyalty. Furthermore, social responsibility and sustainability enhance the brand's reputation and draw in clients who are concerned about environmental and social issues. Working together with local communities or designers also results in unique items that boost the pride of the consumer. All of this helps the business and the client develop a lasting, mutually beneficial connection.

Traditionally employed for fabrics or accessories, the ikat weaving technique is now used for clothing items including shirts, skirts, and blouses. Customers who value cultural history will find the clothing more valued because it incorporates unique motifs and colors from ikat weaving, which gives it an exclusive and genuine touch. By changing the design to reflect current fashion trends, this innovation also focuses on product diversity. MSMEs of Medali Mas ikat weaving tools, a more contemporary style of apparel that incorporates traditional ikat weaving features, and a more minimalist design. Additionally, the product's appeal is increased by the adoption of sustainable production methods and eco-friendly components, particularly among customers who are concerned about social and environmental issues. In this way, ikat weaving products made into clothes not only retain cultural value but also have a wide appeal in the modern market.

Customers are more likely to stick around over time when they believe that the business values them and is dedicated to fulfilling their needs. Loyalty is strengthened by a positive shopping experience, which includes smooth transactions and excellent service. These connections are further strengthened by working with local communities or incorporating consumers in the narratives of the products, which increases their sense of brand affinity. In the long term, each of these elements helps to build a connection that benefits both the business and the client.

5. Conclusion

5.1. Innovation

MSMEs Weaving Ikat Medali Mas innovates through the use of contemporary technologies and eco-friendly materials, the creation of contemporary designs that uphold traditional values, and the diversification of items like clothing and accessories. They are promoting ikat weaving as a cultural heritage and broadening their market reach through digital marketing and customizing options.

5.2. Innovation Elements

Ikat weaving MSMEs can become more competitive and relevant in the current market by implementing the four components of product innovation: product diversification, modern design, eco-friendly material use, and appealing packaging. While maintaining traditional customs, these advances let products compete on a global scale.

5.3. Innovation Strategy

In order to generate unique and pertinent products, MSMEs innovate through market research, product diversification, digital technology utilization, and designer cooperation. The brand's reputation is further enhanced by the sustainability of the production methods and materials used. This tactic uses storytelling that fosters emotional attachment, personalization, and high-quality products to increase consumer loyalty. In addition to drawing in new clients, strategic innovation fortifies enduring bonds with current clients.

5.4. Innovation's Effect on Long-Term Customer Relationships

By satisfying demands, fostering customer loyalty, and producing satisfying experiences, ongoing product innovation improves long-term connections with clients. Collaboration with local communities or designers, sustainability, and social responsibility enhance the brand's reputation and draw in clients who are concerned about environmental and social issues.

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