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# DIGITAL MARKETING AS A DETERMINANT VARIABLE FOR IMPROVING THE BUSINESS PERFORMANCE

## Abstract

This study analyzes the complex relationships between digital marketing, Customer Relationship Management (CRM), competitiveness, and business performance in the creative industry Small and Medium Enterprises (SMEs), focusing on craft-leading products in urban areas of East Java province. According to the sample size, the number of survey respondents was 172. There were 86 male entrepreneurs (50%) and 86 female entrepreneurs (50%). Primary data were collected by distributing the questionnaires according to the number of respondents to SME entrepreneurs who are managers or company owners with competence in the business field and more than five years of business experience. The analysis used Partial Least Squares Structural Equation Modeling (PLS-SEM). The results emphasize that digital marketing affects business performance through CRM by 0.126 with p-value of 0.006, and competitiveness by 0.260 with p-value of 0.000. It can be explained that digital media can identify, recruit, and turn potential customers into loyal customers. Higher demands from customers for online services are becoming increasingly crucial for digital marketing and business activities. The essence of the results of this study is that the more effective digital marketing is, the more influential the company's CRM is to improve the company's business performance, including profit growth, sales growth, and employment growth. The critical role of digital strategy, CRM, and competitiveness on business performance can overcome the challenges posed by the pandemic and drive success in creative industry SMEs of superior products in East Java, highlighted in this study.

## Keywords

digital marketing, customer relationship management,  
competitiveness, business performance, SMEs

## JEL Classification

M21, M31

## INTRODUCTION

Amid the global COVID-19 pandemic, Small and Medium Enterprises (SMEs) exhibited a diverse response, with 82.9% facing adversity and 5.9% experiencing positive growth (Limanseto, 2021; Hadiyati & Hendrasto, 2021; Ihza, 2020). Embracing the Fourth Industrial Revolution, Industry 4.0, SMEs are urged to adopt strategic measures for long-term viability and sustainability (Vaidya et al., 2018). This entails leveraging digital technology, as highlighted by Lu et al. (2021), with digital marketing emerging as a pivotal strategy (Zaverzhenets & Łobacz, 2021). Arobo (2022) underscores the significance of digital marketing in enhancing brand recognition, customer relationships, and feedback evaluation. This aligns with previous studies emphasizing the role of digital marketing in bolstering SME competitiveness through platforms like social media (Chatterjee & Kar, 2020). However, Chakravarthy et al. (2022) reveal inconsistent findings regarding the relationship between digital marketing and business performance. Understanding the intricate interplay between digital marketing, customer relationship management (CRM), and competitiveness is crucial (Mozaheb et al., 2015; Hoque et al., 2017).

The unique contribution of this research lies in its developed model, unraveling the mediating influence of CRM and competitiveness, thus differentiating it from previous efforts. As SMEs navigate dynamic challenges, effective integration of digital marketing strategies, robust CRM practices, and enhanced competitiveness emerge as a potent formula for sustained success (Hadiyati & Mulyono, 2017). This framework establishes a distinctive paradigm, differentiating this study from previous research efforts. As SMEs navigate the evolving business landscape, incorporating digital marketing strategies, effective CRM, and enhanced competitiveness emerge as a potent formula for ensuring sustained success and resilience in the face of dynamic challenges. Marketing and promoting products through digital media allow companies to identify, recruit, and turn potential customers into loyal customers. Building good relationships with customers is the key to business success. Email, text, web, and social platforms are ways to establish and strengthen the relationships with customers.

The increasing customer demand for online services has made digital marketing more critical for business activities. Digital marketing is a means for companies to proactively use communication channels to connect with customers, listen to their needs and interests, and deliver personalized messages to build long-term engagement. Customers expect digital relationships that are responsive and relevant to their interests. In managing relationships with customers through digital marketing, there are things to consider, namely interesting content, responding quickly to customer questions, and utilizing social media – digital marketing – to improve the quality of company services to customers. CRM systems compile customer data, sales patterns, marketing data, and trends to identify new sales opportunities, provide better customer service, or suggest more personalized services and offers. The more effective digital marketing is, the more influential the company's CRM is to improve the company's business performance, including profit growth, sales growth, and employment growth. The process of marketing and promoting products is carried out through digital media by communicating the future, appearance, and quality of the product better; this will provide customer attractiveness so that the company can reach a broader market and be able to increase the competitiveness of the company. The more effective digital marketing, the more the company's competitiveness increases in the face of competing companies; for example, the company can meet market demand, maintain company revenue, and increase competitive ability; this will affect the company's business performance, including profit growth, sales growth, and employment growth.

## 1. LITERATURE REVIEW

Digital marketing has emerged as a transformative force in the business landscape, leveraging online platforms, cutting-edge technologies, and sophisticated data analytics to craft effective marketing strategies and campaigns. The digital era has revolutionized industries across the economic spectrum, prompting small and medium-sized enterprises (SMEs) to pivot their competitiveness towards digital marketing (Achieng, 2016). Bojorges (2017) and Hadiyati (2023) underscore the role of digital marketing as a long-term strategy for establishing market competitiveness, with a keen focus on fostering client relationships to drive business success and performance.

Machmen et al. (2021) assert that digital marketing is critical in preserving competitiveness, addressing SME challenges, and enhancing overall

performance. Silva et al. (2022) further emphasize the significance of digital marketing in client retention, competitiveness, and long-term business success. However, contrasting viewpoints surface in the discourse, as Machmen et al. (2021), and Alqasa et al. (2022) argue that digital marketing alone cannot enhance business performance for SMEs. Bojorges (2017) counters this argument by demonstrating how, when applied strategically, digital marketing fuels market competition by prioritizing customer connections and bolstering business performance.

The debate extends to studies examining the direct impact of digital marketing on business performance. While Hadiyati (2023) finds no significant effect of digital marketing on business performance directly, the mediation of competitiveness reveals a nuanced relationship between the two variables. Notably, Chakravarthy et al. (2022)

highlight the insignificance of digital marketing and competitiveness in influencing business performance, contrasting with the positive impact of customer management observed in SMEs in India.

Customer Relationship Management (CRM) emerges as a pivotal aspect of business strategy, with goals centered on enhancing customer satisfaction, retention, and overall corporate expansion (Reijonen & Laukkanen, 2010). However, the relationship between CRM and business performance remains contentious. Mohamad et al. (2014) suggest that CRM may not significantly improve SMEs' business performance, a sentiment echoed by Al Qureshi et al. (2020). Conversely, Nagwan et al. (2020) and Chakravarthy et al. (2022) assert the positive impact of CRM on business performance in SMEs, highlighting its role in driving profitability and growth.

Competitiveness, a cornerstone of business strategy, refers to meeting consumer expectations regarding quality and price while outperforming rivals and sustaining profitability (Tambunan, 2010). Hadiyati and Mulyono (2017) identify key elements that shape SMEs' competitiveness, including resource accessibility, business environment circumstances, corporate capabilities, and financial support. These factors, technological advancements, and strategic alliances contribute to SMEs' ability to compete effectively.

The relationship between competitiveness and business performance is complex, with various studies offering divergent perspectives. While Baporikar (2019) and Hadiyati and Mulyono (2017) assert that competitiveness positively influences SMEs' business performance, Michieka and Ogollah (2013) argue that superior customer value creation and strategic resource utilization are essential for achieving competitiveness. Baporikar's (2019) study in Namibia further highlights the impact of competitiveness on business success, emphasizing the importance of customer satisfaction and strategic positioning. Amid these debates, the current study seeks to develop a comprehensive model elucidating the interplay between digital marketing, CRM, competitiveness, and business performance. By synthesizing prior research findings and addressing existing gaps in the literature, this study aims to provide a nuanced understand-

ing of how SMEs can leverage digital strategies to enhance their competitive edge and drive sustainable growth and success in today's dynamic business landscape.

This research aims to investigate the positive influence of Digital Marketing (DM) on Customer Relationship Management (CRM), Competitiveness, and Business Performance, as well as to examine the mediating roles of CRM and competitiveness in the relationships between DM and Business Performance. Based on the aims of this research and the research background, the hypotheses are as follows:

- H1: *Digital Marketing (DM) positively affects Customer Relationship Management (CRM).*
- H2: *Digital Marketing (DM) positively affects Competitiveness.*
- H3: *Digital Marketing (DM) positively affects Business Performance.*
- H4: *Customer Relationship Management (CRM) positively affects Business Performance.*
- H5: *Competitiveness influences Business Performance.*
- H6: *Digital Marketing (DM) influences Business Performance mediated by Customer Relationship Management (CRM).*
- H7: *Digital Marketing (DM) influences Business Performance mediated by competitiveness.*

## 2. METHODOLOGY

The study examines and analyzes the digital marketing impact as a determinant of business performance mediated by CRM and competitiveness. This research utilizes a quantitative approach method that emphasizes the analysis of numerical data (numbers) from respondents' answers. Generally, the quantitative approach is applied in inferential research as the basis for rejecting or accepting the research hypothesis. This particular study featured the qualitative data derived from primary data gathered through a survey of

research participants, comprising creative sector SME entrepreneurs in regions or districts in the province of East Java.

The poll was performed by creating a Google form for business owners using mobile phones, allowing for direct interaction with SME entrepreneurs in the creative industries. The research population included SME entrepreneurs in the creative industry of superior product crafts in urban areas of East Java province. The number of research samples was determined by utilizing the Slovin formula (Yamane, 1967), which generated 172 SME entrepreneurs as the sample. This number was taken using the proportional sampling method. In the survey activities for several respondents according to data from the Department of Cooperatives and Industry and Trade of East Java Province in 5 cities of the research area, the data provided information on the identity of entrepreneurs, types of products produced, and sales turnover. Data were collected using questionnaires distributed to respondents, namely managers or owners of companies with competence in the business field and more than five years of business experience.

The next step progressed by determining the samples of superior creative industry SMEs in each city or district using the proportional random sampling method, according to Greener and Martelli (2015). Data analysis uses PLS-SEM represented by Smart PLS and PLS Graph software. The following criteria were explained in previous research (Heumann & Schomaker, 2016; Vaughn, 2017; Solomon et al., 2017; Ghozali, 2018): 1) research is exploratory or theoretical, identifying the key variables that determine certain constructs or predicting them; 2) research is a formative construct; 3) research does not contain reciprocal relationships; 4) research does not require a large sample size; and 5) the scale of data measurement can be nominal, ordinal, interval, and ratio.

### 3. RESULTS

In the current study, the respondents' demographic details included their gender, age, education level, and years of business. In terms of gender-specific characteristics of the respondents, it was found that there were 86 male entrepreneurs (50%) and 86 fe-

male entrepreneurs (50%). The characteristics of respondents according to age included: respondents aged 25-30 years or 32 respondents (18.6%), aged 31-35 years or 17 respondents (9.9%), aged 36-40 years or 23 respondents (13.4%), aged 41-45 years or 35 respondents (20.3%), aged 45-50 years or 47 respondents (27.3%), and aged more than 50 years or 18 respondents (10.5%). Based on the education, it was found that there were 46 respondents (26.7%) graduating from elementary school, 30 respondents (17.4%) graduating from junior high school, 77 respondents (44.8%) graduating from high school/vocational high school, four respondents (2.3%) graduating from Diploma degree, and 15 respondents (8.7%) graduating from Bachelor degree. In terms of business duration, it was found that 34 respondents (19.8%) had owned a business for less than five years, and 138 respondents (80.2%) had owned a business for more than five years.

This study is performed to ensure data reliability and validity. Convergent validity was calculated in this study to evaluate the construct's validity. Through the loading factor's value, convergent validity was demonstrated. If an instrument's loading factor was more significant than 0.5 or its p-value was less than 0.05, it was said to have passed convergent validity testing.

The results of testing the validity of the indicators/constructs with the convergent test (see Table 1) are observed from the values of the loading factor and p-value. Table 1 shows that all indicators are valid because the loading factor is  $\geq 0.5$  and the p-value is  $< 0.05$ .

Composite reliability was applied to evaluate the dependability of this study. A variable was deemed to achieve composite reliability if the value was more than 0.6. The study's Cronbach's alpha was higher than 0.6, supporting the veracity of its conclusions are illustrated in Table 2.

A variable indicator was declared reliable if Cronbach's alpha and composite reliability were met. As depicted in Table 2, the reliability test on latent variables revealed that the Cronbach's alpha and composite reliability values of all variables were above 0.6. Hence, all variables' indicators were declared reliable and eligible to be continued to the following analysis. Analyzing the coefficient

**Table 1.** Convergent validity test results

Source: Data processing (2023).

Latent variable	Observed variable	Loading factor	p-value
Digital Marketing	_X.1	0.732	0.000
	_X.2	0.710	0.000
	_X.3	0.775	0.000
	_X.4	0.618	0.000
	_X.5	0.647	0.000
	_X.6	0.656	0.000
	_X.7	0.765	0.000
	_X.8	0.791	0.000
	_X.9	0.721	0.000
	_X.10	0.567	0.000
	_X.11	0.669	0.000
	_X.12	0.716	0.000
Customer Relationship Management (CRM)	_Y1.1	0.528	0.000
	_Y1.2	0.447	0.000
	_Y1.3	0.633	0.000
	_Y1.4	0.561	0.000
	_Y1.5	0.660	0.000
	_Y1.6	0.635	0.000
	_Y1.7	0.513	0.000
	_Y1.8	0.561	0.000
	_Y1.9	0.590	0.000
	_Y1.10	0.555	0.000
	_Y1.11	0.679	0.000
	_Y1.12	0.591	0.000
Competitiveness	_Y2.1	0.589	0.007
	_Y2.2	0.568	0.056
	_Y2.3	0.625	0.000
	_Y2.4	0.741	0.000
	_Y2.5	0.684	0.000
	_Y2.6	0.431	0.092
Business Performance	_Z. 1	0.789	0.000
	_Z. 2	0.666	0.000
	_Z. 3	0.814	0.000
	_Z. 4	0.741	0.000

**Table 2.** Reliability test results

Source: Data processing (2023).

Latent variable	Cronbach's alpha	Composite reliability
Digital Marketing	0.904	0.920
Customer Relations Management	0.821	0.859
Competitiveness	0.667	0.780
Business Performance	0.746	0.840

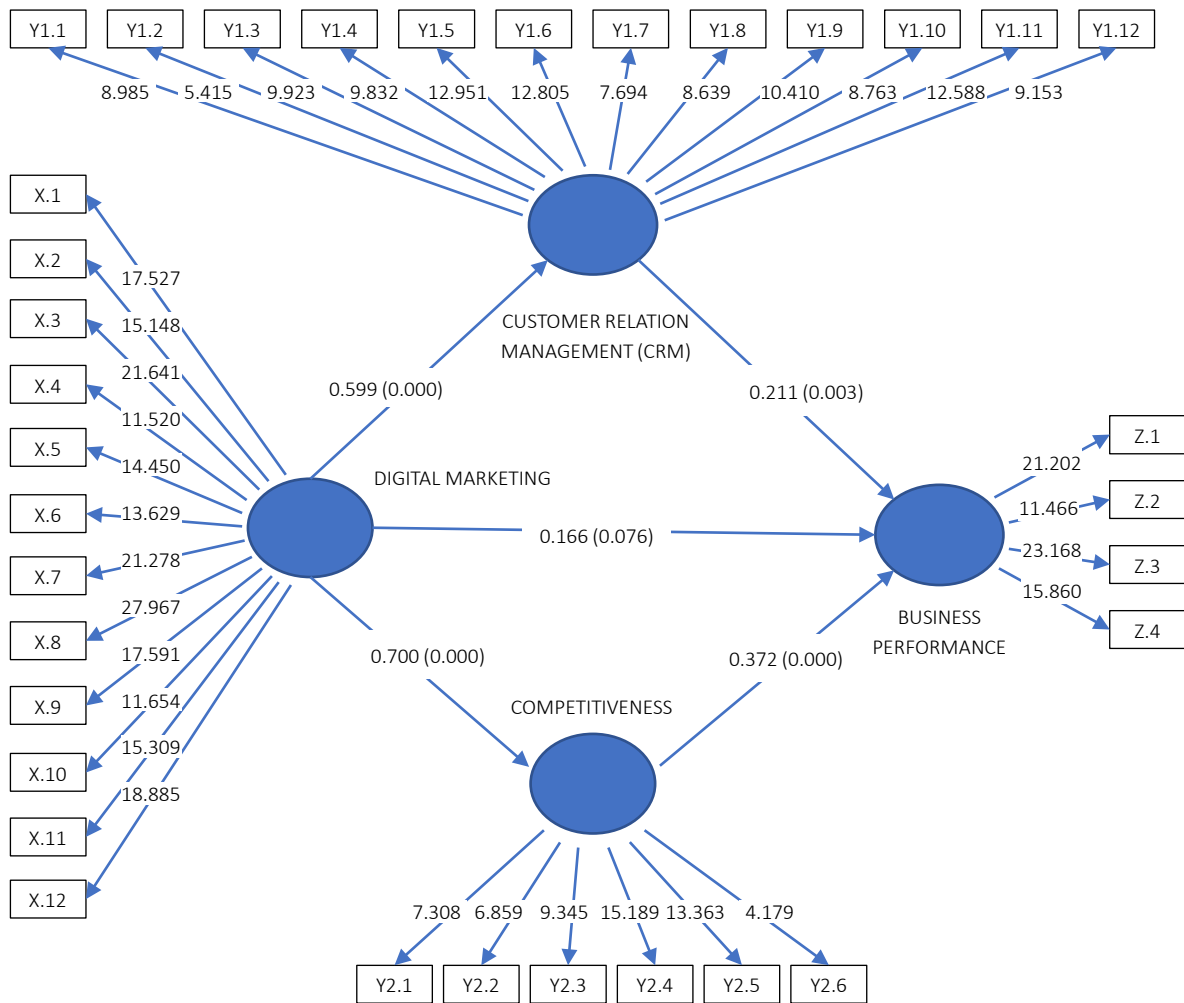
of determination and conducting hypothesis tests is called the structural model evaluation. In most cases, R-squared is applied to evaluate the structural model for dependent constructs. Changes in the R-squared values are utilized to assess the specific exogenous effect or independent latent variables on the dependent or endogenous latent variables, which indicate whether there is an influence.

Besides, the SEM-PLS model is performed by evaluating the predictive relevance of the Q-squared value for the model construct, measuring how observed values are generated and estimated by the model and parameters (Musyaffi et al., 2021).

According to Chin (1998), if  $R^2 > 0.19$ , it means that the model strength is less or weak; meanwhile,



Source: Data processing (2023).



**Figure 1.** Structural model analysis results

if  $R^2 > 0.33$ , it means that the strength of the model is medium or moderate, and if  $R^2 > 0.67$ , it means that the model is robust. The  $R^2$  results are listed in Table 3.

Table 3 illustrates that the diversity of the Customer Relations Management variable can be explained by a variable of Digital Marketing scoring 35.9%, and the remaining 64.1% indicates the contri-

bution of other variables excluded in the model. Furthermore, the diversity of competitiveness variable can be explained by a variable of Digital Marketing indicating 49%, and the remaining 51% indicates the contribution of other variables excluded in the model. Following that, variables including Digital Marketing, Customer Relations Management (CRM), and Competitiveness can explain 41.8% of the diversity of Business

**Table 3.** The coefficient of determination ( $R^2$ ) results

Source: Data processing (2023).

Variable	R <sup>2</sup>	Adjusted R <sup>2</sup>
<b>Customer Relations Management</b>		
(Digital Marketing → Customer Relations Management)	0.359	0.355
<b>Competitiveness</b>		
(Digital Marketing → Competitiveness)	0.490	0.487
<b>Business Performance</b>		
(Digital Marketing, CRM, Competitiveness → Business Performance)	0.428	0.418

**Table 4.** Predictive relevance test results (Q<sup>2</sup>)

Source: Data processing (2023).

Variable	SSO	SSE	Q <sup>2</sup> (=1-SSE/SSO)
Digital Marketing	2064	2064	
Customer Relations Management	2064	1832562	0.112
Competitiveness	1032	849,670	0.117
Business Performance	688	530,318	0.229

Performance variables, with the remaining 58.2% reflecting the contribution of additional variables not included in the model. The coefficient of determination reveals that the strength of all models is in the moderate or medium category ( $R^2 > 0.33$ ). The Q<sup>2</sup> value measures how the model and parameters generate and estimate observed values. The predictive relevance results (Q<sup>2</sup>) are presented in Table 4.

This study utilized a significance test. The direct effect significance test results are depicted in Table 5, and the indirect effect is illustrated in Table 6.

The test results presented in Table 5 indicate that t-statistics (13.530) is  $> 1.96$  and p-value (0.000) is  $< \alpha$  (0.05), confirming that there was a significant relationship between Digital Marketing and Customer Relation Management (CRM) in SMEs of superior product crafts. The coefficient of Digital Marketing to Customer Relation Management (CRM) was 0.599, denoting that Digital Marketing is significantly positive for Customer Relation Management (CRM). These results explain that Digital Marketing with the dimensions of entertainment, communication, perceived usefulness, and customization can improve CRM with the dimensions of focus on customers, knowledge of customers, the relationship of marketing, and customer loyalty. The test results presented in Table 5 indicate that t-statistics (14.014) is  $> 1.96$  and p-value (0.000) is  $< \alpha$  (0.05), denoting that there was a significant relationship between Competitiveness and Digital Marketing of

SMEs of superior product crafts. The coefficient of Digital Marketing to Competitiveness is 0.700, indicating that Digital Marketing significantly impacts Competitiveness. Thus, higher Digital Marketing leads to higher Competitiveness. These results explain that Digital Marketing with the dimensions of entertainment, communication, perceived usefulness, and customization can increase Competitiveness, including the availability of resources. Referring to the test results presented in Table 5, it is apparent that t-statistics (1.779) is  $< 1.96$  and p-value (0.076) is  $> \alpha$  (0.05), marking that there is no significant relationship between Digital Marketing and Business Performance. These results explain that Digital Marketing with dimensions of entertainment, communication, perceived usefulness, and customization cannot improve Business Performance as measured by profit growth, growth in employment, sales growth, and investment growth. The results of this study are based on Chakravarthy et al. (2022) and Hadiyati's (2023) research, which explains that digital marketing does not noticeably impact the business performance of small and medium-sized enterprises. Referring to the test results presented in Table 5, it is apparent that t-statistics (2.982) is  $> 1.96$  and p-value (0.003) is  $< 0.05$ , marking that there is a significant relationship between Customer Relations Management (CRM) and Business Performance in SMEs of superior product crafts. The coefficient of the variable Customer Relations Management (CRM) against Business Performance is 0.211, interpreting that Customer Relations Management (CRM)

**Table 5.** Direct effect results

Source: Data processing (2023).

Variables	Coefficient	t-statistics	p-values	Information
Digital Marketing → Customer Relations Management (CRM)	0.599	13,530	0.000	Significant influence
Digital Marketing → Competitiveness	0.700	14014	0.000	Significant influence
Digital Marketing → Business Performance	0.166	1,779	0.076	No significant effect
Customer Relations Management (CRM) → Business Performance	0.211	2,982	0.003	Significant influence
Competitiveness → Business Performance	0.372	4,042	0.000	Significant influence

positively affects Business Performance in SMEs. These results explain that CRM, with the dimensions of focus on customers, knowledge of customers, relationship of marketing, and customer loyalty, can improve business performance as measured by profit growth, growth in employment, sales growth, and investment growth. Thus, higher CRM leads to higher Business Performance. Referring to the test results presented in Table 5, it is apparent that t-statistics (4.042) is > 1.96 and p-value (0.000) is < 0.05, noting that there is a significant relationship between Competitiveness and Business Performance in SMEs of superior product crafts. The coefficient of the Competitiveness variable against Business Performance is 0.372, interpreting that Competitiveness positively affects Business Performance in SMEs. These results explain that competitiveness with the dimensions of availability of resources, conditions of the business environment, business capabilities, policy and infrastructure, financial support, and business partnerships can improve Business Performance as measured by profit growth, growth in employment, sales growth, and investment growth.

The test results presented in Table 6 indicate that T statistics (2.780) is > 1.96 and p-value (0.006) is < 0.05, explaining that there is a significant relationship between Business Performance and Digital Marketing mediated by Customer Relations Management (CRM) in SMEs of superior product crafts. The coefficient is 0.126, indicating that Digital Marketing positively affects Business Performance mediated by Customer Relation Management (CRM). These results can be explained that Digital Marketing will be able to improve Business Performance through CRM. These results explain that Digital Marketing with the dimensions of entertainment, communication, perceived usefulness, and customization can improve business performance as measured by profit growth, growth in employment, sales growth, and investment growth, where companies apply CRM as a mediating variable. The

test results presented in Table 6 indicate that t-statistics (3.921) is > 1.96 and p-value (0.000) is < 0.05, explaining that Digital Marketing had an effect on Business Performance significantly mediated by Competitiveness in SMEs of superior product crafts. The coefficient is 0.260, indicating that Digital Marketing positively affects Business Performance mediated by Competitiveness. These results explain that Digital Marketing with the dimensions of entertainment, communication, perceived usefulness, and customization can improve Business Performance as measured by profit growth, growth in employment, sales growth, and investment growth, where companies apply Competitiveness as a mediating variable.

#### 4. DISCUSSION

Amid the tumultuous global landscape catalyzed by the unprecedented COVID-19 pandemic, Small and Medium Enterprises (SMEs) have embarked on a journey fraught with challenges and opportunities, especially within the realm of urban creative SMEs specializing in superior product crafts. This research endeavors to delve into the intricate web of relationships between digital marketing, Customer Relationship Management (CRM), competitiveness, and business performance within this specific niche, aiming to unravel the underlying mechanisms that drive success and resilience in the face of adversity. The initial exploration of SME responses to the pandemic serves as a poignant backdrop, painting a picture of resilience amidst uncertainty. With a staggering 82.9% of SMEs grappling with adversity while a more minor yet notable 5.9% experience growth, it becomes evident that the pandemic has acted as a catalyst for change, compelling SMEs to adapt or face the consequences (Limanseto, 2021; Hadiyati & Hendrasto, 2021; Ihza, 2020). In this context, the clarion call to embrace Industry 4.0 resonates loudly, beckoning SMEs to integrate digital technologies into

**Table 6.** Indirect effect results

Source: Data processing (2023).

Variables	Coefficient	t-statistics	p-values	Information
Digital Marketing → Customer Relations Management (CRM) → Business Performance	0.126	2,780	0.006	Significant influence
Digital Marketing → Competitiveness → Business Performance	0.260	3,921	0.000	Significant influence



their operations to ensure survival and sustainability (Vaidya et al., 2018). Central to this digital transformation narrative is the pivotal role digital marketing plays. Beyond mere promotion, digital marketing serves as a conduit for SMEs to engage with their audience, foster relationships, and glean valuable insights (Zaverzhenets & Łobacz, 2021; Arobo, 2022). The multifaceted dimensions of digital marketing – encompassing entertainment, communication, perceived usefulness, and customization – emerge as critical determinants of CRM enhancement within urban creative SMEs (Sansern et al., 2022; Mehralian & Khazaei, 2022). By crafting compelling narratives, facilitating seamless communication, delivering tangible value, and tailoring offerings to individual preferences, SMEs can forge deeper connections with their clientele, laying the foundation for long-term loyalty and advocacy.

Moreover, digital marketing is a potent tool for enhancing competitiveness, empowering SMEs to carve out a distinct identity amidst a crowded marketplace (Singh et al., 2022; Daxhammer et al., 2019). In the urban creative sector, where innovation and uniqueness reign supreme, digital marketing offers SMEs a platform to showcase their craftsmanship, tell their stories, and differentiate themselves from competitors. By harnessing the power of digital channels, SMEs can amplify their reach, engage with their audience personally, and adapt swiftly to evolving market dynamics. However, while digital marketing exerts a palpable influence on CRM and competitiveness, its direct impact on business performance appears nuanced and contingent on various mediating factors (Chakravarthy et al., 2022; Hadiyati, 2023). This complexity underscores the importance of understanding the intricate interplay between

digital marketing, CRM, competitiveness, and business performance. CRM is a pivotal mediator, bridging the gap between digital marketing efforts and tangible business outcomes (Mehralian et al., 2022; Nuseir & Refae, 2022). Effective CRM practices ensure that digital marketing initiatives translate into sustainable growth and profitability by nurturing relationships, gathering insights, and fostering loyalty.

Furthermore, the symbiotic relationship between digital marketing and competitiveness emerges as a cornerstone of business performance within the urban creative sector (Hadiyati, 2023). While digital marketing enhances visibility and engagement, competitiveness impels SMEs to capitalize on these advantages and drive superior business outcomes. This synergistic interplay underscores the importance of aligning digital marketing strategies with competitive positioning to foster sustained success and growth. This research shed light on the intricate dynamics shaping the performance of urban creative SMEs specializing in superior product crafts. By integrating digital marketing with effective CRM and competitiveness strategies, SMEs can unlock their full potential, driving enhanced customer relationships, market competitiveness, and business performance. This holistic approach offers a roadmap for SMEs to navigate the ever-evolving business landscape, fostering resilience and sustained success in an increasingly digitalized and competitive environment. Through strategic adaptation, innovation, and a keen understanding of customer needs, urban creative SMEs can carve out a distinctive niche in the market, leveraging digital technologies to thrive amidst uncertainty and disruption while fostering meaningful connections with their audience.

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## CONCLUSION

The findings of this study underscore the distinctive dynamics within the creative industry of superior product crafts in urban areas of East Java province. The impact of digital marketing on business performance is intricately mediated by Customer Relationship Management (CRM) and competitiveness. Consequently, SMEs operating in this industry should not solely concentrate on digital marketing; instead, they should ensure the effectiveness of their CRM strategies to maintain a competitive edge in the market. This study significantly contributes to understanding the complex relationship between digital marketing and business success in this context. The results demonstrate that CRM and competitiveness are crucial intermediaries between digital marketing efforts and business performance, indicating that

the impact is not direct. By incorporating CRM and competitiveness as mediating variables, digital marketing can effectively enhance overall corporate performance. The findings highlight the importance of SMEs in this sector approaching clients through CRM despite utilizing digital marketing for operational efficiency.

Moreover, the study suggests an indirect link between digital marketing and company success, with CRM playing a pivotal role as a mediator. On a different note, the model test indicates that SME owners must cultivate competitiveness to thrive in digital marketing. The novelty of this study lies in its revelation of the mediating role of CRM and competitiveness in the effect of digital marketing on business performance. This insight contributes to a more nuanced understanding of the factors influencing success in the context of SMEs in the creative industry in East Java.

## AUTHOR CONTRIBUTIONS

Conceptualization: Ernani Hadiyati, Sugeng Mulyono, Gunadi.  
 Data curation: Ernani Hadiyati, Sugeng Mulyono, Gunadi.  
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## APPENDIX A

**Table A1.** Digital Marketing, CRM, Competitiveness, Business Performance\*

Research variable indicator/item	
Digital Marketing	Digital marketing through social media attracts attention Digital marketing through social media pleases customers Digital marketing information provides company brand awareness Digital marketing as a medium for company communication with consumers Digital marketing can build a company's brand Digital marketing as a promotional tool Digital marketing via social media helps product searches Digital marketing provides easy payment for product purchases Digital marketing quickly provides information Digital marketing focuses attention on customers Digital marketing provides services to customers Digital marketing provides fast responses to customers
Customer Relationship Management	Businessmen provide attraction to customers Entrepreneurs retain existing customers Entrepreneurs maintain customer loyalty Entrepreneurs have knowledge for customers Entrepreneurs gain knowledge from customers Entrepreneurs have knowledge about customers Entrepreneurs are trying to find new customers Entrepreneurs identify customer segments Entrepreneurs use customers as promotional media Entrepreneurs have technological means of communication with customers Technology communications own customer data
Competitiveness	Companies pay attention to resource availability The company is proactive about changes in the business environment The company has the ability to compete in the market The company has financial support for the venture The company is supported by business facilities. Entrepreneurs have entered into business partnerships
Business Performance	In their business activities, entrepreneurs achieve profit growth In their business activities, entrepreneurs achieve an increase in the number of workers In their business activities, entrepreneurs achieve sales growth In their business activities, entrepreneurs achieve growth in the amount of investment

*Note:* \*This is a research questionnaire that was distributed to SME entrepreneurs as owners or managers with a business experience of more than 5 years. Questionnaires according to research variables with indicators or items according to the operational research variables. The questionnaire uses a 1-5 Likert scale with scale statements of strongly disagree, disagree, neutral, agree, and strongly agree.

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# Digital marketing as a determinant variable for improving the business performance

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This study analyzes the complex relationships between digital marketing, Customer Relationship Management (CRM), competitiveness, and business performance in the creative industry Small and Medium Enterprises (SMEs), focusing on craft-leading products in urban areas of East Java province. According to the sample size, the number of survey respondents was 172. There were 86 male entrepreneurs (50%) and 86 female entrepreneurs (50%). Primary data were collected by distributing the questionnaires according to the number of respondents to SME entrepreneurs who are managers or company owners with competence in the business field and more than five years of business experience. The analysis used Partial Least Squares Structural Equation Modeling (PLS-SEM). The results emphasize that digital marketing affects business performance through CRM by 0.126 with p-value of 0.006, and competitiveness by 0.260 with p-value of 0.000. It can be explained that digital media can identify, recruit, and turn potential customers into loyal customers. Higher demands from customers for online services are becoming increasingly crucial for digital marketing and business activities. The essence of the results of this study is that the more effective digital marketing is, the more influential the company's CRM is to improve the company's business performance, including profit growth, sales growth, and employment growth. The critical role of digital strategy, CRM, and competitiveness on business performance can overcome the challenges posed by the pandemic and drive success in creative industry SMEs of superior products in East Java, highlighted in this study.

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