



Strengthening The Competitive Advantage Of Msmes Based On Local Branding: An RBV Perspective With The Moderating Role Of Digital Marketing

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ABSTRACT

Increasingly fierce business competition demands that MSMEs have a sustainable competitive advantage, one of which is through strengthening local branding that represents identity, cultural values, differentiation, and perceptions of product quality. However, the effectiveness of local branding in creating a competitive advantage is inseparable from the ability of MSMEs to adopt digital marketing as a supporting capability for marketing strategies. This study analyzes the influence of local branding on the competitive advantage of MSMEs and examines the role of digital marketing adoption as a moderating variable in this relationship. The study used a quantitative approach with a survey method on MSME actors, and the data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS). The results showed that local branding had a positive and significant effect on the competitive advantage of MSMEs, while digital marketing adoption did not have a direct effect on competitive advantage. However, the results of the moderation test proved that digital marketing adoption was able to strengthen the influence of local branding on competitive advantage, indicating that the use of digital marketing plays an important role in increasing the effectiveness of local identity-based branding strategies. These findings confirm that the integration between strengthening local branding and optimal digital marketing adoption can be a relevant strategy for MSMEs in building stronger and more sustainable business competitiveness.

INTRODUCTION

The Micro, Small, and Medium Enterprises (MSMEs) sector is the backbone of the Indonesian economy because it absorbs a large workforce and drives productivity activities in various regions. Amidst tight global competition, MSMEs are required to have strategies that are able to build sustainable competitive advantages (Deby Laras Wati et al., 2024). One area that has great potential in the MSME sector is Kesambi Village, Porong District, Sidoarjo Regency, which is known as a center for stainless steel and aluminum kitchen equipment craftsmen. Products such as sablukan steamers, meatball steamers, milk pans, single food containers, tangkring ovens, and langseng have long been the hallmarks and identities of the production of the Kesambi Village community. In fact, most of the residents in this village depend on their livelihoods as craftsmen or workers in the household industry sector.

In line with Prasetyo's (2022) findings, household manufacturing MSMEs still face various obstacles when trying to promote local brands to achieve long-term strategic value (Prasetyo et al., 2022). This situation demonstrates that the potential of local wisdom-based resources has not been fully matched by managerial capacity, particularly in managing regional identity to create a competitive advantage.

However, in recent years, the development of kitchen equipment MSMEs in Kesambi Village has shown signs of stagnation, particularly in marketing. The community still relies on conventional sales methods such as word-of-mouth or traditional market sales, without leveraging the potential of digitalization and strong branding strategies (Cn and Helmita, 2023). The use of digital marketing can actually support business performance through the use of social media, marketplaces, and digital promotional strategies, although its effectiveness is highly dependent on the ability of business actors to manage and integrate digital channels appropriately (Sulistiyowati and Rahmawati, 2024). As a result, local residents find it difficult to compete in an increasingly open market, especially with the influx of cheaper and more widespread imported products from China. This phenomenon has led to a price war among local MSMEs, which has actually reduced profitability and weakened long-term competitiveness (Saputera, Rahmiati and Adhipurna, 2024).

Research by Astuti & Wibowo (2023) confirms that MSMEs that fail to build a strong local brand image will be more vulnerable to price-based competition (Astuti, Wibowo and Juwono, 2023). On the other hand, Lestari's (2021) study shows that adopting a branding strategy that utilizes elements of local wisdom has been proven to increase consumer emotional appeal and strengthen product positioning in the domestic market (Lestari, 2021). However, to date, there has been little research linking local branding directly to the Resource-Based View (RBV) model of MSME competitive advantage, particularly in the traditional household appliances sector.

Viewed from the RBV perspective, Kesambi Village possesses highly valuable intangible resources, such as hereditary production skills, distinctive kitchenware designs, and local wisdom inherent in every MSME product. RBV emphasizes that unique, valuable, and difficult-to-imitate internal resources, including local branding, can be the primary foundation for building sustainable competitive advantage (Barney, 1991). However, in practice, the potential for local branding in Kesambi Village has not been managed strategically. The local identity that should function as a key differentiator in the market has not provided an optimal contribution to the competitiveness of MSMEs (Agustin et al., 2024).

This finding aligns with research by Rahmawati et al. (2023) which states that the competitive advantage of MSMEs is determined more by intangible assets, such as brand image and local knowledge, than by physical resources alone (Novi Ria Rahmawati et al., 2023). However, most RBV studies still focus on large companies or the service sector, so research examining the application of RBV in the context of locality-based MSMEs, particularly in the home industry sector, is still relatively limited. This limitation is the conceptual gap that this study aims to bridge.

On the other hand, in the context of increasingly complex MSME competition, the success of a local branding strategy is determined not only by the strength of the brand identity itself, but also by the market response to the value offered by the brand. Several previous studies have shown that market satisfaction and acceptance are often used as indicators of marketing success, as they reflect the extent to which consumers accept and appreciate a brand's value.

Study Alhamdany et al. (2023) found that brand equity significantly influences satisfaction and positive responses, while Sucma and Sugiat (2023) emphasized that customer satisfaction plays a crucial role in shaping brand loyalty. These findings demonstrate that branding has important psychological implications in building relationships between products and consumers.

However, most of these studies emphasize consumer psychological processes and place customer satisfaction and loyalty as the primary mechanisms explaining marketing performance. In the context of local wisdom-based MSMEs such as those in Kesambi Village, this approach fails to fully explain why local branding, already recognized and accepted by consumers, has not consistently translated into sustainable competitive advantage. Therefore, this study does not position customer satisfaction and loyalty as analytical variables or intermediary mechanisms, but rather as empirical contexts that illustrate market responses to MSME branding strategies. The primary focus of this research is directed at how local branding, as a strategic resource, can be converted into competitive advantage through the support of digital marketing capabilities.

With this background, this study aims to analyze the influence of local branding on competitive advantage in Kesambi Village by considering the adoption of digital marketing as a factor that strengthens this relationship. Previous research has shown that the use of digital marketing is an important strategy for MSMEs to improve business performance and expand market reach amidst increasingly competitive competition (Setini et al., 2025). The focus of this study is directed at how utilizing local identity as a strategic resource can produce sustainable competitive advantage, especially in facing increasingly competitive and digitalized market dynamics. This approach provides a more focused understanding of the internal factors that influence MSME stagnation, while also offering strategic solutions based on local potential.

This study uses the Resource-Based View (RBV) framework as the main theoretical basis, because RBV emphasizes that the competitive advantage of a business is primarily determined by the utilization of unique, valuable, and difficult-to-imitate internal resources, not solely by external factors such as price or market conditions (Eravia and Samsir, 2025). In this context, local branding is positioned as an intangible resource that represents the unique identity of Kesambi Village, Porong District, Sidoarjo Regency, and has strategic potential to create competitive advantages for MSMEs.

To deepen our understanding of the relationships between variables, this study developed a research model that positions Digital Marketing Adoption as a moderating variable. This variable is viewed as an organizational capability that determines the extent to which local branding can optimally impact the competitive advantage of MSMEs. This research does not focus on consumer psychology as an intermediary mechanism, but rather on the role of digital marketing capabilities in strengthening the effectiveness of MSMEs' internal resource utilization in the digital era.

The selection of variables in this study is based on the understanding that the problems faced by MSMEs in Kesambi Village are not only related to weak local brand identities, but also to the limited ability of business actors to maximize the strategic value of their resources. Local branding, as a distinctive regional identity, has great potential to become a source of competitive advantage, but this potential has not been fully converted into sustainable competitiveness. This condition indicates that the main problem lies not solely in the branding aspect, but rather in the capability of MSMEs to manage and convey brand value to the market effectively.

In this context, the adoption of digital marketing is a crucial factor in determining the success of local branding in creating a competitive advantage. Without adequate digital marketing support, local branding tends to remain merely a symbolic identity capable of reaching a broad market, building ongoing interactions with customers, or highlighting the uniqueness of local products amidst increasingly fierce competition. Therefore, digital marketing is positioned as a strategic capability that can strengthen or weaken the influence of local branding on the competitive advantage of MSMEs.

Thus, this study successfully identified the root causes of the weak competitive advantage of MSMEs in Kesambi Village through the RBV perspective, emphasizing the role of internal resources and organizational capabilities. This study contributes novelty by presenting a conceptual model that positions digital marketing as a moderating variable in the relationship between local branding and competitive advantage, which is still relatively limited in the context of locally based MSMEs in Indonesia. The results of this study not only enrich the academic literature but also provide applicable strategic recommendations for strengthening the competitiveness of local MSMEs amidst the challenges of globalization and economic digitalization.

LITERATURE REVIEW

Resource-Based View (RBV)

Resource-Based View (RBV) Theory emphasizes that sustainable competitive advantage is obtained through the management of internal resources that are valuable, rare, inimitable, and non-substitutable, or known as the VRIN criteria (Barney, 1991). In the context of MSMEs, these resources are not only physical assets, but also intangible resources such as reputation, skills, customer relationships, and local wisdom values (Ilham et al., 2024)

RBV places local branding as a form of strategic resource that is capable of creating long-term competitive advantage because it represents the uniqueness of local identity and values that are difficult for competitors to replicate (Barney, 1991). Meanwhile, according to Wernerfelt (1984), companies that are able to identify and exploit their unique internal resources will more easily build a strong competitive position in the market (Wernerfelt, 1984). However, the effectiveness of utilizing local branding as a strategic resource is highly dependent on the organization's capability in managing and communicating this value to the market, especially through the use of digital marketing technology. In this study, RBV is the main framework to explain that local branding is a strategic resource that comes from the internal potential of MSMEs, such as the skills of craftsmen and local cultural values of Kesambi Village, which if managed well will produce sustainable competitive advantages (Barney, 1991)

Local Branding

Local branding is a marketing strategy that emphasizes the uniqueness, cultural identity, and distinctive values of a region in the image of a product or service. Local branding functions to build an emotional attachment between customers and the product due to the authentic value and pride in the product's region of origin (Shava, 2024)

According to Winnie & Keni (2020), a strong brand can create a perception of quality and consumer trust, which ultimately strengthens the positive consumer response to the brand (Winnie and Keni, 2020). In the context of MSMEs, local branding is a strong differentiator from mass products, especially amidst increasing consumer preference for products that have cultural value and authenticity (Nugroho et al., 2025). Pranadetha & Hanoum (2025) showed that strengthening local brand identity can increase perceived value and customer engagement with traditional products. This finding suggests that local branding not only builds brand image but also plays a role in strengthening competitive advantage through added value and clearer differentiation in the eyes of consumers (Pranadetha, Hanoum and Noer, 2025)

Competitive Advantage

Competitive advantage is the ability of a company to create greater value for customers than competitors (Porter, 1998) According to Barney (1991) in the RBV framework, competitive advantage comes from the effective use of unique internal resources (Barney, 1991)

According to David (2021), competitive advantage can be cost-based or differentiation-based (David and David, 2021) In MSMEs, differentiation often stems from product uniqueness, personalized service, and local identity. Meanwhile, research by Fathonah & Wati (2024) shows that strong branding increases MSME competitiveness by enhancing perceived quality and customer loyalty (Fathonah, Wati and Winarno, 2024)

Thus, In the context of this research, competitive advantage is understood as the result of utilizing local branding as a strategic resource for MSMEs supported by digital marketing capabilities in creating business differentiation and competitiveness.

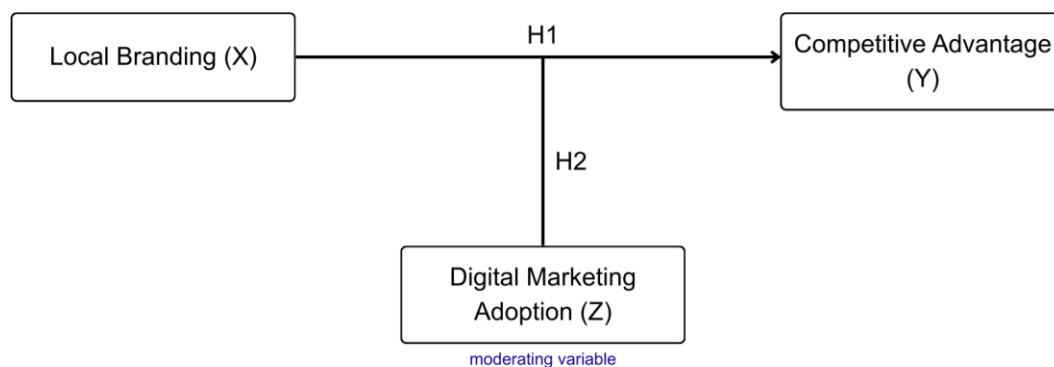
Digital Marketing Adoption

Digital Marketing Adoption refers to the extent to which MSMEs integrating digital technology into marketing activities, including social media, e-commerce, websites, and other digital platforms (Andika et al., 2021) Research by Mulyanto & Budi (2025) proves that the adoption of digital marketing strengthens the influence of branding on business performance, because it allows two-way interaction between producers and customers (Mulyanto and Budi, 2025). In addition, a study by Amalia et al. (2023) shows that the use of digital media can expand the market reach of local products and increase consumer trust in brands (Amalia et al., 2023). Research by Indriyani & Shan (2024) shows that the results of adopting digital marketing in MSMEs are seen as an approach that can support marketing activities, with varying levels of effectiveness depending on the business context and internal conditions of each MSME actor (Indriyani and Shan, 2024).

In this study, Digital Marketing Adoption is positioned as a moderating variable (Z) that serves to strengthen the relationship between local branding and competitive advantage. As the level of digital marketing utilization increases, the influence of local branding on competitiveness also becomes stronger (Muhammad Robbiansa Pramadhika et al., 2025) Therefore, digital marketing not only acts as a promotional medium, but also becomes a tool that helps MSMEs affirm their local brand identity in the digital space, thus being more responsive to changes in current consumer behavior (Adi Prayuda et al., 2025)

Relationship between variables

1. Local Branding (X) is positioned as an intangible resource source that originates from the distinctive identity, cultural values, and uniqueness of regional products, which from an RBV perspective has strategic potential to create competitive advantages for MSMEs.
2. Digital Marketing Adoption (Z) acts as an organizational capability that moderates the relationship between local branding and competitive advantage. The level of digital marketing adoption determines the extent to which local branding can be effectively communicated and utilized to create business differentiation and competitiveness.
3. Competitive Advantage (Y) is the result of utilizing local branding as a strategic resource supported by digital marketing capabilities, thus enabling MSMEs to achieve sustainable competitiveness.

Figure 1. Thinking Framework

source: Author's own elaboration based on Resource-Based View (Barney, 1991)

Information

- H1 : Local branding has a positive and significant effect on competitive advantage.
 H2 : Digital Marketing acts as a moderating variable in the relationship between Local Branding And Competitive Advantage.

The Relationship between Local Branding and Competitive Advantage

From the Resource-Based View (RBV) perspective, sustainable competitive advantage stems from the utilization of valuable, rare, difficult to imitate, and non-substitutable (VRIN) internal resources (Barney, 1991). Local branding can be positioned as an intangible resource that meets these criteria because it represents the identity, cultural values, and unique characteristics of a region that competitors do not possess. When local branding is managed strategically, it can create clear differentiation and provide added value to MSME products.

theory (1991) asserts that companies capable of exploiting their unique internal resources will more easily build a superior competitive position in the market (Barney, 1991). In the context of MSMEs, local branding serves as a key differentiator that not only highlights the functional aspects of the product, but also the symbolic and emotional value attached to the product's origins. This uniqueness allows MSMEs to escape price-based competition and build more sustainable competitiveness.

Empirical research by Astuti and Wibowo (2023) found that MSMEs with a strong local brand image are more resilient in the face of competitive pressures and substitute products (Astuti, Wibowo and Juwono, 2023). Similar results were also presented by Lestari (2021), who showed that branding based on local wisdom can increase product competitiveness in the domestic market through more meaningful differentiation (Lestari, 2021). Thus, effectively managed local branding has a positive and significant impact on the competitive advantage of MSMEs.

The Relationship between Digital Marketing Adoption and Competitive Advantage

Digital Marketing Adoption is seen as an organizational capability that enables MSMEs to utilize digital technology to improve marketing effectiveness and business competitiveness. Within the RBV framework, this capability acts as a mechanism that helps organizations optimize the use of internal resources, including local branding, to generate greater economic value (Barney, 1991).

The use of social media, marketplaces, and digital platforms opens up opportunities for MSMEs to reach a wider market and increase communication intensity with consumers. However, the effectiveness of digital marketing in creating competitive advantage is not always universal and is heavily influenced by organizational readiness, market characteristics, and the marketing

strategy implemented. David (2021) emphasizes that capabilities will only generate competitive advantage if they are managed strategically and integrated with the organization's core resources (David and David, 2021)

Several previous studies have shown mixed results regarding the relationship between digital marketing and the competitive advantage of MSMEs. Some studies found that the use of digital media has the potential to increase brand visibility and business competitiveness, while other studies showed that suboptimal digital marketing adoption does not necessarily result in significant competitive advantage (Amalia et al., 2023) These varied findings indicate that the role of digital marketing adoption on competitive advantage still requires further testing, particularly in the context of rural MSMEs.

The Role of Digital Marketing Adoption as a Moderating Variable in the Relationship between Local Branding and Competitive Advantage

In theoretical studies, Digital Marketing Adoption can be positioned as a moderating variable in the relationship between Local Branding and Competitive Advantage. RBV explains that local branding as an intangible resource has the potential to create competitive advantage, but its effectiveness depends on the organization's capability in managing and communicating that value (Barney, 1991)

Digital marketing provides a platform for MSMEs to showcase their local identity, cultural values, and product stories to a wider market. In certain contexts, this capability has the potential to strengthen local branding by increasing reach and engagement with consumers. However, in other contexts, adopting digital marketing that isn't integrated with local branding characteristics can potentially blur differentiation and diminish the strength of brand identity.

Previous research has shown mixed findings regarding the moderating role of digital marketing. Most studies found that digital marketing can strengthen the influence of brand-based resources on MSME performance, while other studies indicated that its effectiveness depends on the readiness of business actors and the suitability of marketing strategies to market characteristics (Mulyanto and Budi, 2025) (Nuvriasari, As'ari and Fauzan Rozi, 2024) Therefore, the role of Digital Marketing Adoption as a moderating variable in the relationship between Local Branding and Competitive Advantage needs to be tested empirically in the context of MSMEs in Kesambi Village.

Grand Theory

This research is based on the Resource-Based View (RBV) as the main theory, which is a strategic approach that focuses on the organization's internal resources as the main basis for building and maintaining a sustainable competitive advantage. RBV was introduced by Barney (1991) who explained that an organization can gain a competitive advantage if it has valuable, rare, inimitable, and non -substitutable resources known as the VRIN framework criteria. (Barney, 1991)

In the context of kitchen equipment MSMEs in Kesambi Village, Sidoarjo, the RBV theory is relevant because this sector has a wealth of internal resources in the form of inherited skills, distinctive designs, and local wisdom values inherent in each product. These resources are intangible assets, which often serve as differentiators and are not easily imitated by competitors, including imported products from China that rely more on cost efficiency and mass production. This is in line with the views of Wernerfelt (1984) and Barney (1991) that competitive advantage is more sustainable if it is based on the internal uniqueness of the organization, not only on external factors such as price or distribution (Wernerfelt, 1984) (Barney, 1991)

According to Grant (1991), RBV theory assumes that organizations capable of identifying, developing, and exploiting their unique resources will have a greater chance of surviving in a competitive market (Grant, 1991) intangible resources such as reputation, trust, and customer perception, all of which are key factors in creating added value (valuable creation).

Empirical studies support the relevance of RBV to branding and the competitiveness of MSMEs. Research by Agustin et al. (2024) shows that developing local identity-based branding can strengthen the competitiveness of MSMEs by increasing the perception of value and consumer attachment to local products (Agustin et al., 2024). In line with this, Rahmawati et al. (2023) found that the right branding strategy significantly increases the competitiveness of MSMEs by improving brand image and expanding market reach (Novi Ria Rahmawati et al., 2023). In addition, a study by Nugroho et al. (2025) emphasized that MSME product branding strategies by utilizing local identity and digital media play an important role in creating added value and increasing the competitiveness of business actors in an increasingly competitive market [24]. These findings strengthen the argument that intangible assets such as local brand image, reputation, and product uniqueness are important components in building RBV-based competitive advantage.

Furthermore, in the modern RBV perspective, competitive advantage is not only based on the ownership of internal resources, but also on the organization's ability to convert these resources into dynamic capabilities to respond to changes in technology and the business environment (Teece, 2018). This is in line with the Digital Marketing Adoption variable, which functions as a form of actualization of the dynamic capabilities of MSMEs in strengthening the impact of local branding on competitive advantage through the use of digital technology as an adaptive strategy.

Considering its overall theoretical foundation, the Resource-Based View (RBV) provides a strong conceptual foundation for this research. The RBV perspective helps explain how local branding, as a unique and difficult-to-imitate internal resource, can be converted into a competitive advantage for MSMEs when supported by appropriate organizational capabilities, particularly through the adoption of digital marketing as a form of dynamic capability. The RBV framework provides analytical space to understand how the internal potential of MSMEs in Kesambi Village can be optimally utilized in responding to the increasingly competitive dynamics of the digital era.

METHODS

Types and Approaches of Research

This study uses a quantitative approach with an explanatory research type that aims to test the causal relationship between local branding and the competitive advantage of MSMEs, by considering the adoption of digital marketing as a moderating variable. This approach was chosen because it is able to provide a measurable and objective picture of the influence between variables through statistical analysis, as well as explaining the extent to which digital marketing strengthens the effectiveness of local branding in creating business competitiveness. According to Sofyani (2023), quantitative research is used to test hypotheses formulated based on theory through the collection of numerically measurable data (Sofyani, 2023). This approach is based on the Resource-Based View (RBV) perspective, which views local branding as an intangible asset (intangible resource) of strategic value, solely the adoption of digital marketing is positioned as an organizational capability that determines the optimization of internal resource utilization in building the competitive advantage of MSMEs.

Research Location

This research took place in Kesambi Village, Porong District, Sidoarjo Regency. The area is known as a hub for MSMEs producing household appliances made from stainless steel and aluminum, such as steamers, pots, and food containers. This location was chosen because its business characteristics aligned with the research focus, making it a relevant object of study.

Population and Sample

The population of this study is all household appliance MSMEs in Kesambi Village who are actively operating in 2025. Based on data from the local village government, there are 102 active MSME units in the area. Because the population is relatively small and still within the limits that allow for comprehensive research, this study uses a saturated sample technique (census sampling). Saturated sampling is a sampling technique when all members of the population are used as respondents (Sofyani, 2023)

Data Types and Sources

The types of data used in this study are primary and secondary data. Primary data were obtained directly from questionnaires distributed to owners and managers of household appliance MSMEs in Kesambi Village. Secondary data were obtained from various written sources, including documents, reports, journals, scientific articles, and relevant statistical data regarding MSMEs, local branding, digital marketing adoption, and competitive advantage (Ollivia et al., 2025) (Novi Ria Rahmawati et al., 2023)

Data Collection Technique

Data for this study were collected through questionnaires and limited interviews. The main instrument, a questionnaire, was structured based on indicators for each variable (Local Branding, Digital Marketing Adoption, and Competitive Advantage) using a Likert scale of 1-5 to obtain measurable quantitative data. To enhance validity, limited interviews were conducted with several MSMEs to verify respondents' answers and gain contextual understanding of local branding strategies.

The questionnaire in this study was distributed directly (offline) and indirectly (online) via the WhatsApp application to owners and managers of household appliance MSMEs in Kesambi Village through field visits. This technique was used because most MSME actors have varying levels of digital literacy, so online distribution is less than optimal (Prasetyo et al., 2022) Respondents who were eligible to fill out the questionnaire were business owners, business managers, or family members involved in the production or marketing process of the product, in accordance with the characteristics of the local MSME population (Agustin et al., 2024) In addition to direct distribution, researchers also provided assistance in filling out the questionnaire to ensure that respondents understood each question item, thereby reducing the potential for bias and misperception. Limited interviews were also conducted to confirm some of the respondents' answers and enrich the data context as recommended by Sofyani (2023) in primary data collection in quantitative research (Sofyani, 2023)

Operational Definition of Variables

Table 1. Operational Indicators of Variables

Variables	Dimensions	Key Indicators	Scale	Source
Local Branding	Identity & Uniqueness	The product displays the identity and local characteristics of Kesambi Village	Likert 1-5	(Barney, 1991)
	Cultural Values	Products reflect cultural values and local wisdom.	Likert 1-5	(Novi Ria Rahmawati et al., 2023)
	Differentiation	Local branding differentiates products from competitors	Likert 1-5	(Lestari, 2021)
	Perception of Quality	Local branding improves the perception of product quality	Likert 1-5	(Astuti, Wibowo and Juwono, 2023)
Digital	Utilization of	MSMEs use digital media	Likert	(Mulyanto and Budi,

Marketing Adoption	Digital Marketing	(social media/ marketplaces in marketing)	1-5	2025)
	Intensity	Digital media is used routinely in marketing	Likert 1-5	(Nuvriasari, As'ari and Fauzan Rozi, 2024)
	Branding Content	Digital media is used to display the identity and uniqueness of the product	Likert 1-5	(Nugroho et al., 2025)
	Customer interaction	Digital media is used to interact with customers	Likert 1-5	(Amalia et al., 2023)
Competitive Advantage	Differentiation	The product has uniqueness compared to competing products	Likert 1-5	(Porter, 1998)
	Competitiveness	Products are able to compete in the market	Likert 1-5	(Barney, 1991)
	Value-added	Local branding increases the selling value of products	Likert 1-5	(Novi Ria Rahmawati et al., 2023)
	Sustainability	Businesses are able to survive in the midst of competition	Likert 1-5	(Grant, 1991)

Source: Adapted from (Barney, 1991); (Novi Ria Rahmawati et al., 2023); (Lestari, 2021); (Astuti, Wibowo and Juwono, 2023)

Data Analysis Techniques

Data analysis in this study was conducted using the Structural Equation Modeling Partial Least Squares (SEM-PLS) method with the help of SmartPLS 4 software. This technique was chosen to simultaneously test the relationships between latent constructs. The analysis stages include:

1. Structural Equation Modeling Partial Least Squares (SEM-PLS)

The SEM-PLS approach is a method for structural equation modeling that is characterized by variance and is generally used in research with complex model structures, limited sample sizes, and data that does not meet the assumption of normality. This technique was chosen because it can analyze relationships between latent constructs simultaneously. The analysis stages used include:

a. Measurement Model (*Outer Model*)

The measurement model aims to assess the extent to which indicators represent the construct being measured. Three main aspects are analyzed:

1. *Convergent Validity*

Convergent validity is seen from the *outer loading value* of each indicator on its construct, with a standard of ≥ 0.70 . In addition, the *Average Variance value Extracted (AVE)* must reach ≥ 0.50 so that the indicator is considered capable of explaining more than 50% of the variation in the construct.

2. Construct Reliability Test

Construct reliability is determined through *Composite Reliability* and *Cronbach's Alpha values*, each of which must have a minimum value of 0.70. This indicates that the indicators within a construct have adequate internal consistency.

b. Structural Model (*Inner Model*)

The structural model describes the causal relationships between latent constructs in the model. *The inner model* includes several important dimensions as follows:

1. *R-Square Value (R²)*

R² measures the proportion of variance in the dependent variable that can be explained by the independent variable. Interpretation of *R²* values is classified as high (≥ 0.75), medium (0.50-0.74), and low (≤ 0.25).

2. Predictive Relevance (Q^2)

Q^2 is used to assess *the* model's ability to predict endogenous variables. If the Q^2 value is *above* 0, the model can be considered to have adequate predictive relevance.

3. Effect Size (f^2)

f value ² shows how much an independent construct contributes to explaining the dependent construct, the effects are categorized as large (≥ 0.35), medium (0.15-0.34) and small (0.02-0.14).

c. Significance Test of Direct and Moderation Relationships

Significance testing is conducted to examine causal relationships between latent constructs in the research model. This testing includes direct and moderating influences between research variables.

1. Direct Effect Test

The direct influence between variables was tested using *the path coefficient* (β) value and tested using the method generated from the *bootstrapping process* in SmartPLS. The relationship between variables was considered significant if the T-statistic value was > 1.96 and the p-value was < 0.05 at the 5% significance level.

2. Moderation Test (*Moderating Effect*)

A moderation test was conducted to determine the role of *Digital Marketing Adoption* (Z) in strengthening or weakening the influence of *Local Branding* (X) on *Competitive Advantage* (Y). The moderation test was conducted by forming an interactive construct ($X \times M$) in a structural model as recommended in the SEM-PLS approach. The moderation effect is declared significant if the interaction construct has a T-statistic value > 1.96 and a p-value < 0.05 .

This moderation analysis is important to explain how digital marketing capabilities act as a reinforcing factor in optimizing the use of local branding as a strategic resource for MSMEs, in line with *the Resource-Based View* (RBV) perspective which emphasizes the importance of organizational capabilities in converting internal resources into sustainable competitive advantages.

RESULTS

Validity Test

Table 2. Results of Convergent Validity Test (*Outer Model*)

Indicator	Local Branding (X)	Digital Marketing (Z)	Competitive Advantage (Y)	Digital Marketing x Local Branding (Z x Y)
X1	0.965			
X2	0.874			
X3	0.946			
X4	0.924			
X5	0.835			
X6	0.904			
X7	0.893			
X8	0.926			
Z1		0.909		
Z2		0.791		
Z3		0.899		
Z4		0.909		
Z5		0.944		

Z6		0.907		
Z7		0.729		
Z8		0.728		
Y1			0.882	
Y2			0.714	
Y3			0.732	
Y4			0.938	
Y5			0.846	
Y6			0.863	
Y7			0.938	
Y8			0.844	
Z x Y				1,000

Source: Data processed using SmartPLS 4

Based on the test results in Table 2, all indicators used in this study demonstrated outer loading values above the recommended minimum limit of 0.70. This value indicates that each indicator has a good ability to represent the latent construct being measured, including the variables Local Branding, Digital Marketing Adoption, and Competitive Advantage. Therefore, it can be concluded that the indicators in this study have met the criteria for convergent validity and are suitable for use in further structural model testing.

Construct Reliability Test

Table 3. Construct Reliability Test

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Local Branding (X)	0.970	0.973	0.974	0.826
Digital Marketing (Z)	0.949	1,052	0.956	0.733
Competitive Advantage (Y)	0.944	0.959	0.953	0.720

Source: Data processed using SmartPLS 4

The reliability test results in Table 3 show that all study variables had Cronbach's Alpha and Composite Reliability values exceeding the 0.70 threshold, and an Average Variance Extracted (AVE) above 0.50. These findings indicate that the indicators within each construct have a good level of internal consistency and are able to adequately explain the construct's variance. Therefore, all variables in this study can be declared reliable and meet the requirements for further analysis in the SEM-PLS model.

R-Square Value (R^2)

Table 4. R-Square (R^2)

	R-square	R-square adjusted
Digital Marketing (Z)	0.066	0.057
Competitive Advantage (Y)	0.926	0.924

Source: Data processed using SmartPLS 4

Based on Table 4, the R-Square value for the Competitive Advantage variable is 0.926. This value indicates that Local Branding and Digital Marketing Adoption, including their interaction, are able to explain 92.6% of the variation in MSME Competitive Advantage. Meanwhile, the remaining 7.4% is influenced by other factors outside the research model. This high R-Square value indicates that the structural model has very strong explanatory power for endogenous variables.

Predictive Relevance (Q^2)

Table 5. Predictive Relevance (Q^2)

	$Q^2 (=1-SSE/SSO)$
Local Branding (X)	0,000
Digital Marketing (Z)	0,000
Competitive Advantage (Y)	0.637

Source: Data processed using SmartPLS 4

The results of the predictive relevance test in Table 5 show a positive value for the Competitive Advantage variable, at 0.637. This value indicates that the research model has good predictive power in explaining endogenous variables. Thus, the model developed is not only capable of explaining the relationships between variables but also has an adequate level of predictive accuracy in the context of this research.

Effect Size (f^2)

Table 6. Effect Size (f^2) of Relationships Between Constructs

	Local Branding (X)	Digital Marketing (Z)	Competitive Advantage (Y)	Digital Marketing x Local Branding (Z x X)
Local Branding (X)		0.070	7,938	
Digital Marketing (Z)			0.047	
Competitive Advantage (Y)				
Digital Marketing x Local Branding (Z x X)			0.540	

Source: Data processed using SmartPLS 4

Based on Table 6, the Local Branding variable has a very large effect size value on Competitive Advantage, indicating that this variable is a dominant factor in shaping the competitiveness of MSMEs. Meanwhile, Digital Marketing Adoption has a relatively small effect size value, so its direct contribution to Competitive Advantage is relatively limited. However, the interaction variable between Digital Marketing Adoption and Local Branding shows a large effect size, indicating that digital marketing plays a significant role in strengthening the influence of local branding on the competitive advantage of MSMEs.

Significance Test of Direct and Moderation Relationships

Direct Effect Test

Table 7. Results of the Direct Effect Test

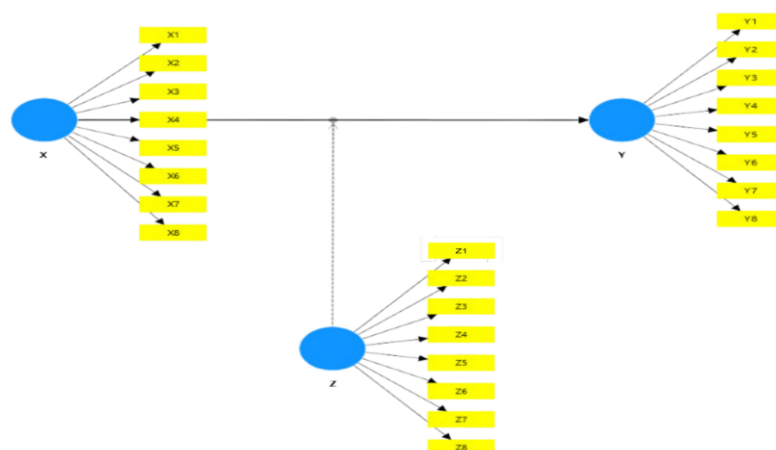
	Original sample (O)	Sample mean (M)	Standard Deviation (STDEV)	T statistics (O/STDEV)	P values
Local Branding -> Competitive Advantage (X -> Y)	0.847	0.852	0.047	17,979	0,000
Digital Marketing -> Competitive Advantage (Z -> Y)	0.062	0.056	0.039	1,574	0.116
Digital Marketing x Local Branding -> Competitive Advantage (Z x X -> Y)	-0.200	-0.181	0.058	3,472	0.001

Source: Data processed using SmartPLS 4

The significance test results in Table 7 show that Local Branding has a positive and significant effect on the Competitive Advantage of MSMEs, as indicated by a T-statistic value exceeding 1.96 and a p-value smaller than 0.05. In contrast, Digital Marketing Adoption does not show a significant direct effect on Competitive Advantage. However, the results of the interaction variable test indicate that Digital Marketing Adoption plays a significant role as a moderating variable in the relationship between Local Branding and Competitive Advantage. This finding indicates that digital marketing does not directly increase the competitiveness of MSMEs but plays a role in strengthening the effectiveness of local branding in creating competitive advantage.

Moderation Test (Moderating Effect)

Figure 2. Structural Model with Moderation Test



Source: Data processed using SmartPLS 4

Figure 2 illustrates the structural model of the study, which demonstrates the relationship between Local Branding and Competitive Advantage, with Digital Marketing Adoption as a moderating variable. The direct relationship between Local Branding and Competitive Advantage is demonstrated by the main structural path, while the moderating role of Digital Marketing Adoption is represented by the interaction path between Local Branding and Digital Marketing Adoption on Competitive Advantage. The existence of this interaction variable indicates that the influence of Local Branding on Competitive Advantage is not constant but rather is influenced by the level of digital marketing adoption of MSMEs. Thus, the higher the utilization of digital marketing, the stronger the influence of Local Branding in increasing Competitive Advantage. This finding confirms that Digital Marketing Adoption plays a role in strengthening the effectiveness of local branding strategies in creating business competitiveness.

DISCUSSION

The Relationship between Local Branding and Competitive Advantage

The results of the hypothesis testing indicate that local branding has a positive and significant effect on the competitive advantage of kitchen utensil-making MSMEs in Kesambi Village. This finding indicates that the stronger the implementation of local branding that emphasizes the identity, cultural values, and uniqueness of regional products, the higher the competitive advantage of MSMEs, both in the form of product differentiation, increased competitiveness, added value, and business sustainability.

This finding is in line with the Resource-Based View (RBV) perspective which emphasizes that sustainable competitive advantage stems from the utilization of valuable, rare, difficult to imitate, and non-substitutable internal resources (Barney, 1991). In the context of this research, local branding is positioned as an intangible resource that represents the unique identity of Kesambi Village, hereditary production skills, and the value of local wisdom inherent in MSME products. These characteristics are difficult for competitors to replicate, especially mass-produced and imported products that emphasize cost efficiency rather than identity-based differentiation.

Empirically, the results of this study are in line with research by Astuti and Wibowo (2023) who found that MSMEs with a strong local brand image have better competitive resilience and are less likely to be trapped in price-based competition (Astuti, Wibowo and Juwono, 2023). Similar findings were also put forward by Lestari (2021) who stated that branding based on local wisdom can increase the competitiveness of MSME products by creating meaningful differentiation in the domestic market (Lestari, 2021). In addition, Agustin et al. (2024) emphasized that strengthening local identity as part of a branding strategy contributes to increasing the perceived value and competitive advantage of MSMEs (Agustin et al., 2024).

The results of this study also reinforce the view of Rahmawati et al. (2023) who stated that intangible assets such as brand image and local identity have a more dominant strategic role than physical resources in building the competitiveness of MSMEs (Novi Ria Rahmawati et al., 2023). Thus, local branding functions not only as a symbolic element, but also as a strategic instrument capable of creating added value and sustainable differentiation. However, it does not always show consistent results. Research by Prasetyo et al. (2022) actually found that branding, including local branding, does not have a significant effect on the competitive advantage of MSMEs, especially in the small-scale manufacturing sector, where competitiveness is more determined by operational factors such as cost efficiency, production capacity, and pricing strategy (Prasetyo et al., 2022). This difference in findings can be explained by differences in the context and characteristics of the research objects, where in MSMEs that have not yet managed their local identity strategically and are still oriented towards price competition, branding tends not to be able to be converted into a source of competitive advantage. In line with these findings, other research also shows that the adoption of digital marketing in MSMEs does not necessarily

have a direct impact on competitive advantage if it is not supported by internal readiness and adequate digital marketing strategy management (Romadhoni et al., 2024).

In the context of MSMEs in Kesambi Village, local branding is a key differentiating factor because the products they produce possess distinctive design characteristics, production techniques, and a historically established local reputation. Therefore, when local branding is consistently managed, it can elevate MSME products beyond price-based competition and create a more sustainable competitive advantage. Thus, the results of this study confirm that local branding is a relevant and significant strategic resource in enhancing the competitive advantage of MSMEs based on local wisdom.

If examined further based on the variable forming indicators, the significant influence of local branding on the competitive advantage of MSMEs in Kesambi Village is primarily reflected in the aspects of product identity and uniqueness, cultural values, differentiation, and perceived quality. The local identity inherent in kitchenware products, such as distinctive designs and hereditary production techniques, acts as a differentiator that is difficult for competitors to imitate. In addition, the cultural values and local wisdom contained in the production process strengthen the symbolic meaning of the product, so that it is not only assessed from its utilitarian function, but also from the emotional and authentic value felt by consumers.

Practically, these findings demonstrate that MSMEs need to consistently manage local branding, for example by showcasing regional identity on packaging, product labels, and marketing narratives. This local identity-based differentiation allows MSMEs to emerge from price-based competition and build a better perception of quality in the eyes of consumers, ultimately enhancing business competitiveness and sustainability.

The Relationship between Digital Marketing Adoption and Competitive Advantage

The results of the hypothesis testing indicate that digital marketing adoption does not significantly impact the competitive advantage of MSMEs. This finding indicates that the level of digital marketing adoption by MSMEs has not directly increased business competitiveness, expanded competitive position, or created sustainable advantages. In other words, the use of digital media by MSMEs has not yet fully converted into a tangible source of competitive advantage.

From a Resource-Based View (RBV) perspective, digital marketing adoption is viewed as an organizational capability, specifically the ability of MSMEs to integrate digital technology into marketing activities. However, the RBV emphasizes that the mere existence of capabilities is insufficient to create a competitive advantage if those capabilities are not optimally managed, are not unique, and are easily imitated by other business actors. This indicates that the adoption of digital marketing that is still basic and operational has not been able to meet the criteria of a valuable, rare, difficult to imitate, and irreplaceable (VRIN) strategic resource, so its impact on competitive advantage is insignificant. In the context of business development, the use of digital technology is seen as being able to influence the effectiveness of the business planning process for business actors, including MSMEs (Rusnanti et al., 2025).

The findings of this study align with several previous studies that stated that digital marketing adoption does not always have a significant impact on the competitiveness of MSMEs. Research by Andika et al. (2021) found that although MSMEs have utilized digital marketing, its impact on competitive advantage is still limited due to low digital literacy and weak strategic marketing content management capabilities (Andika et al., 2021). Similar results were also presented by Prasetyo et al. (2022) who stated that in small-scale manufacturing MSMEs, the focus of business actors is still predominantly on production and cost efficiency aspects, causing digital marketing adoption to be unable to significantly increase competitive advantage (Prasetyo et al., 2022). In addition, Cn and Helmita (2023) showed that MSME marketing digitalization is often partial and not yet integrated, so that digital media functions more as a means of conveying information than as a strategic tool for building business differentiation and

competitiveness (Cn and Helmita, 2023). These three studies emphasize that the effectiveness of digital marketing is highly dependent on the internal readiness of MSMEs, including the quality of human resources, consistency of implementation, and strategic capabilities in managing digital platforms.

In contrast, several previous studies have shown results that are inconsistent with the findings of this study. Amalia et al. (2023) found that digital marketing adoption has a positive and significant impact on the competitive advantage of MSMEs because it can increase product visibility, expand market reach, and strengthen brand image in the digital environment (Amalia et al., 2023). Similar results were also shown by Mulyanto and Budi (2025) who stated that Digital Marketing Adoption contributes significantly to increasing the competitiveness of MSMEs through two-way interactions with customers and more effective delivery of product value (Mulyanto and Budi, 2025). In addition, Nugroho et al. (2025) emphasized that the use of digital media integrated with local identity can create added value for products and strengthen the competitive advantage of MSMEs amidst the dynamics of digital transformation. The difference between the results of this study and these findings shows that the influence of digital marketing on competitive advantage is highly contextual and influenced by the level of maturity of digital strategies, internal resource readiness, and the integration of digital marketing with brand strengthening and product differentiation.

In the context of MSMEs in Kesambi Village, the results of this study indicate that the use of digital media such as social media and marketplaces is still in its early stages, limited to expanding the reach of product information and facilitating communication with customers. However, the use of digital marketing has not been strategically integrated with strengthening brand identity, product differentiation, and the creation of sustainable unique value. This condition has resulted in Digital Marketing Adoption not being able to play a decisive role in building MSMEs' competitive advantage, especially amidst competition with imported products and large periodic manufacturers.

Thus, the results of this study confirm that digital marketing adoption has not yet become a significant factor influencing the competitive advantage of MSMEs, but rather still functions as a tool to support marketing operations. For digital marketing to contribute strategically to competitiveness, MSMEs need to improve the quality of their digital capabilities by strengthening human resource competencies, integrating digital marketing strategies with local branding, and managing digital platforms consistently and oriented towards long-term value creation.

When linked to the Digital Marketing Adoption indicator, the insignificant direct impact on competitive advantage indicates that digital media utilization by MSMEs is operational and not yet strategic. Indicators of digital media utilization and intensity indicate that most optimally integrate it with product differentiation strategies. Furthermore, uploaded marketing content does not fully emphasize local identity and product uniqueness, thus digital marketing has not been able to create sustainable added value.

Practically, these findings indicate that digital marketing alone is not enough to build a competitive advantage. MSMEs need to improve the quality of their digital content management, strengthen customer interactions, and align digital marketing activities with local branding strategies so that digital media serves not only as a promotional tool but also as a tool for creating business competitiveness.

CONCLUSION

Based on the data analysis and discussion, several key conclusions can be drawn from this study. This study aims to analyze the influence of local branding on the competitive advantage of MSMEs, the role of digital marketing adoption on competitive advantage, and the function of digital marketing adoption as a moderating variable in the relationship between local branding and competitive advantage.

First, the research results show that local branding has a positive and significant impact on the competitive advantage of MSMEs. This finding confirms that local branding is a strategic intangible resource in building business competitiveness. Local identity, cultural values, product differentiation, and the perception of quality inherent in a product can create a uniqueness that is difficult for competitors to imitate. Thus, local branding serves not only as a symbolic identity but also as a strategic asset that drives the sustainability and competitive advantage of MSMEs.

Second, digital marketing adoption does not have a significant direct impact on the competitive advantage of MSMEs. This finding indicates that MSMEs' use of digital media is still operational and has not been fully utilized as a strategy to create competitive advantage. The use of digital media that is not yet integrated with differentiation and branding strategies means that digital marketing is unable to independently increase business profitability.

Third, the research findings demonstrate that digital marketing adoption acts as a moderating variable, strengthening the influence of local branding on competitive advantage. This demonstrates that digital marketing serves as a supporting capability that optimizes the use of local branding. When the identity, cultural value, and uniqueness of local products are effectively communicated through digital media, the impact of local branding on competitive advantage becomes stronger and more widespread.

Overall, the results of this study confirm that the competitive advantage of MSMEs is not only determined by the adoption of digital technology, but primarily by the ability of MSMEs to strategically manage and combine local resources with digital capabilities. Local branding is the primary foundation of competitive advantage, while digital marketing serves as a tool that strengthens and extends the value of that branding. This finding aligns with the Resource-Based View (RBV) perspective, which emphasizes the importance of managing unique and difficult-to-imitate resources in creating sustainable competitive advantage.

SUGGESTIONS

1. Developing Research Variables

Further research is recommended to add other variables that have the potential to influence MSME competitive advantage, such as entrepreneurial orientation, product innovation, human resource quality, digital literacy, or information technology capabilities. Discussion of these variables is expected to provide a more comprehensive picture of the factors influencing MSME competitiveness.

2. Deepening the Role of Digital Marketing

Given that the research results indicate that digital marketing adoption does not always have a direct effect on competitive advantage, future research can examine the role of digital marketing as a mediating or moderating variable with a more specific approach, for example, by separating the dimensions of use of more specific approaches, such as social media, marketplaces, and digital content.

3. Expanding the Research Object and Area

This research is limited to kitchen equipment MSMEs in Kesambi Village. Therefore, future researchers are recommended to expand the research object to other types of MSMEs or different regions to provide broader generalizability.

4. Longitudinal Approach

Further research can also use a longitudinal research design to observe changes in digital marketing adoption behavior and their impact on MSMEs' competitive advantage over a specific period of time, thereby more accurately capturing the dynamics of business development.

RESEARCH TRANSPARENCY AND ETHICS STATEMENTS

1. Author Contributions:

DPR: Conceptualization, Methodology, Data Collection, Data Analysis,

IDR: Writing – Original Draft, Visualization, Review and Editing

2. Funding:

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3. Conflict of Interest:

No conflict of interest: The authors declare that they have no conflict of interest related to the research and publication of this article.

4. Research Ethics:

The study did not involve any intervention, biological specimens, vulnerable groups, or sensitive personal data. Participation was voluntary, and the confidentiality of the respondents was maintained

5. Use of Artificial Intelligence (AI):

No use of ai. The authors declare that generative ai was not used in the preparation of this article.

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