

## THE EFFECT OF PRODUCT INNOVATION AND SERVICE QUALITY ON COMPETITIVE ADVANTAGE MEDIATED BY COMPANY IMAGE (STUDY AT PT. TOYOTA ASTRA MOTOR IN MALANG RAYA)

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### ABSTRACT

*Based on the phenomenon, it can be seen that there are similarities in the pattern of sales achievement and service quality of PT Toyota Astra Motor. The similarity of this pattern raises assumptions and questions about the relationship between achievement in this case competitive advantage and variables such as product innovation and service quality and company image as a mediating variable. This study aims to examine and explain the effect of Product Innovation and Service Quality on Competitive Advantage mediated by Corporate Image. The research population was 618 people who made purchases based on data from all Toyota dealers in Malang Raya during 2020. The population in this study used a purposive sampling technique so that the sample obtained in this study was 158 respondents using a saturated sampling technique (census). studied is the whole of the existing population. Data analysis was carried out using the Partial Least Square (PLS) method. The results showed that Service Quality could not affect Competitive Advantage directly and Product Innovation could affect Competitive Advantage directly. This study also finds that corporate image can mediate the effect of product innovation and service quality on competitive advantage. Product Innovation can increase Competitive Advantage either directly or through improving Corporate Image, while Service Quality can only increase Competitive Advantage through improving Corporate Image.*

*Keywords:* Product Innovation, Service Quality, Corporate Image and Competitive Advantage

### INTRODUCTION

Government policies aimed at advancing the nation's economy little by little are starting to show results. The development of infrastructure and facilities in each region makes many aspects of the industry also progress. Especially in the automotive sector, in online media it is stated that Indonesia has great potential in the automotive business. Road infrastructure development encourages economic growth, especially in vehicle sales. The existence of equitable development results in rapid economic activity in each area which has an impact on increasing people's purchasing power. Gabungan Industri Otomotif Indonesia (GAIKINDO) targets new car sales to reach 1.1 million units in 2019 with a vehicle ownership ratio in Indonesia which is still low at around 87% per 1000 population (CNCBC Indonesia, 2018).

The phenomenon of various new products emerges with the best innovations and is currently competing fiercely. PT Toyota Astra Motor not only won first place for the sale of its vehicle products, but also won the title of a four-wheeled automotive company with the best Call Center service in the 2019 Contact Service Excellence Award report. others to increase their competitive advantage. In the increasingly fierce competition, companies must have strong enough competitiveness to be able to continue to compete with other companies, especially similar companies. To respond to competition, every company must have a different strategy in achieving competitive advantage.

Competitive advantage is the ability of a business entity to provide more value to its products than its competitors and that value does bring benefits to customers. Competitive advantage is an advantage over competitors that is gained by offering value to consumers, either through lower prices or by providing more benefits that support high-priced revenues. Competitive advantage can also come from various company activities such as in terms of designing, producing, marketing, delivering, and supporting its products. Competitive advantage according to Armstrong & Kotler (2012) several ways to gain competitive advantage, among others, by establishing the right position, obtaining a corporate image, gaining new market share, maximizing sales, and creating effective business performance. Competitive advantage is the main key to survive in the global era.

Many factors determine competitive advantage, one of which is product innovation. Innovation also arises from the ability to see and solve problems that exist within a company and identify opportunities and then take advantage of them (Tidd, 2008). Meanwhile, rapid technological advances and high levels of competition require every company to continuously innovate products which will ultimately increase the company's competitive advantage. In order for companies to have a competitive advantage, every company is required to be creative with the products they market on a regular basis. Product creativity can be done by developing new ideas from ideas that they already have and or those that come from other parties where the creativity of the product can have an influence on competitive advantage.

Product innovation will create various product designs, thereby increasing alternative choices, increasing the benefits or value received by customers, which in turn will improve product quality as expected by customers (Prajogo & Sohal, 2003). Companies can make various innovations by making various kinds of product designs, and adding value to an item, besides that the company can also innovate in the fields of 1) product innovation such as goods, services, ideas and places. 2) management innovations such as in work processes, production processes, marketing finance, etc. Innovation is very important for a company. Product innovation is also one of the impacts of rapid technological change. Rapid technological advances and high levels of competition require every company to continuously innovate products which will ultimately increase the company's competitive advantage. The company creates product innovations with a variety of product designs, thereby increasing alternative choices, increasing the benefits or value received by customers, so that product innovation is one way for companies to maintain competitive advantage.

Another factor that influences the company's ability to win competitive advantage is service quality. Service quality is formed through the needs and desires of consumers being met and precisely the delivery that can balance consumer expectations. Consumers will feel satisfied and loyal if they get service quality that meets expectations (Tjiptono & Gregorius, 2011). According to Kotler (2004) the definition of service is an action or activity that can be presented by one party to another, which is intangible and does not result in any ownership. In general, good service will result in high satisfaction and result in repeat purchases. Service quality itself has several elements, including business quality meeting or exceeding customer expectations, product or service quality, and quality in the face of changing conditions.

Service quality is one of the key factors for the success of service companies and cannot be denied in today's business world, because nothing is more important for a company than placing the issue of satisfaction and loyalty to customers through service as one of its business commitments. If the service provided to customers is good and satisfying, it will have an effect on improving the company's image (Rusdarti, 2004). Corporate image has an important role in a company. The reason is because with the company's image, it will have an impact on the company's performance and can maintain the survival of the company. This is the main reason for companies to attract and retain customers. Efforts to acquire loyal customers cannot be done all at once, but through several stages ranging from finding potential customers to acquiring loyal customers.

Service quality can also affect the company's image directly. Image cannot be created like an item or service, but through a process of maintaining and improving service to service users. This statement proves that service quality and corporate image are interrelated and become an important factor for a company. In addition to service quality, product innovation is also needed by the company to improve the company's image. The tastes and desires of customers for a product change. Therefore, companies need to realize goods according to demand through product innovation.

The emergence of product innovation in a company is basically to meet market demand which can be used as a factor in the formation of competitive advantage (Kusumawati, 2010). Furthermore, innovation is a way to improve the company's image in order to create a competitive advantage (Henard and Szymanski, 2001). Product innovation consisting of line extensions, new products (me too-product), completely new products (new-to-the-world-product) is predicted to affect competitive advantage through corporate image. In this case, the product innovation in question is that the products produced by the company are not really new but relatively new for a market, new products for the company but not new for the market and products that are completely new for both the company and the market.

Furthermore, good service quality will affect the company's image (Abiyoso, 2017). If the service quality is good and as desired, a better company image will be formed. Service quality which consists of physical evidence, reliability, responsiveness, assurance and certainty as well as empathy is predicted to affect competitive advantage through the company's image. The quality of service referred to in this study is the physical facilities offered to consumers and communication materials, consistency and service appearance and service reliability, willingness to help customers and provide services quickly, ability, skill, friendliness, trust, and security, and willingness to caring, giving personal attention to customers, ease of contact and monitoring of consumer desires.

Likewise on the intervening variable, namely the company's image which consists of impressions, beliefs, attitudes that are predicted to affect competitive advantage. According to Kriyantono in Prasetya and Ibrahim (2017), corporate image is a picture formed in the minds of customers regarding service, product quality, corporate culture, corporate behavior and individual behavior within the company. Utomo (2016) also said that the company's image has a significant effect on competitive advantage than other factors that affect competitive advantage. The corporate image referred to here is the impression that customers get of the company, customer trust that arises because of the quality possessed by the company, and customer attitudes which are the impact of the customer experience.

## HYPOTHESIS DEVELOPMENT

The emergence of product innovation in a company is basically to meet market demand which can be used as a factor in the formation of competitive advantage (Kusumawati, 2010). Furthermore, innovation is a way to improve the company's image in order to create a competitive advantage (Henard and Szymanski, 2001). Product innovation consisting of line extensions, new products (me too-product), completely new products (new-to-the-world-product) is predicted to affect competitive advantage through corporate image. In this case, the product innovation in question is that the products produced by the company are not really new but relatively new for a market, new products for the company but not new for the market and products that are completely new for both the company and the market.

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H<sub>1</sub> : Product innovation has a positive and significant impact on competitive advantage.

H<sub>2</sub> : Service quality has a positive and significant effect on competitive advantage.

- H<sub>3</sub> : Company image has a positive and significant effect on competitive advantage.  
 H<sub>4</sub> : Product innovation has a positive and significant impact on competitive advantage through corporate image.  
 H<sub>5</sub> : Service quality has a positive and significant effect on competitive advantage through corporate image.

## METHODOLOGY

This type of research is explanatory through a quantitative approach. This research was conducted at the company PT. Toyota Astra Motor in Malang Raya. In this study, a non-probability sampling approach was used with a saturated sample method, meaning that all of the population, 158 respondents, were used as research samples. Collecting data in this study using a questionnaire method. Hypothesis testing and analysis using Partial Least Square (PLS) and to test the mediating variable using the Sobel test.

## RESULTS

The loading factor value of all items of each variable is more than 0.6. This explains that all items in this study are valid and feasible to use. The value of the cross loading of each item on each form of the latent variable has the highest value compared to the value of the cross loading of the items on the other latent variables, so that all the statement items are declared valid based on the terms of discriminant validity. Cronbach's alpha value for each variable is more than 0.7, namely product innovation of 0.977, service quality of 0.941, corporate image of 0.913, and competitive advantage of 0.957. Furthermore, the value of composite reliability in each variable is greater than 0.7, namely product innovation of 0.981, service quality of 0.949, corporate image of 0.930 and competitive advantage of 0.966. Then, the AVE of all variables is more than 0.5, namely the product innovation variable of 0.895, service quality of 0.610, corporate image of 0.634 and competitive advantage of 0.957. This shows that all items are declared reliable in measuring the latent variables and these variables have met the reliability requirements.

The R-square value for the corporate image variable is 0.990. The R-square value indicates that the product innovation and service quality variables can explain the corporate image variable by 99.0%, while the remaining 1.0% is explained by other variables outside the research model. Furthermore, the R-square value for the competitive advantage variable is 0.910. The R-square value indicates that product innovation and service quality variables can explain the competitive advantage variable by 91.0%, while the remaining 9.0% is explained by other variables outside the research model. Furthermore, the results of the R-square value can be categorized as a strong model. The results of the calculation of the Q-Square value of 0.999, this research model is categorized as a very good model because it is close to a value of 1. That is, the variable variation model in this study is 99.9% and the remaining 0.1% is explained by other variables outside the research model. this. Based on the results of the Q2 calculation, it can also be seen that the structural model built in this study is very good because it is close to the value of 1.

**Table 1 Testing the Direct and Indirect Effects of Variables with Path Analysis**

Hypothesis	Effect	Coefficient	P-value	Conclusion
1	X <sub>1</sub> – Y	0,03	< 0,001	Significant
2	X <sub>2</sub> – Y	0,018	0,262	Not Significant
3	Z – Y	-0,089	0,046	Significant
Hypothesis	Effect	Coefficient	T-statistics	Conclusion
4	X <sub>1</sub> – Z – Y	-0,5102	7,630	Significant
5	X <sub>2</sub> – Z – Y	0,6145	5,724	Significant

The test criteria are in direct influence of the variable, if the p-value 0.05, then Ho is accepted otherwise if the p-value 0.05, then Ho is rejected and Ha is accepted. In accordance with the results of data processing shown in table 1, only hypothesis 2 shows insignificant results. Table 1 also shows that the relationship between variables through indirect effects is t-statistics greater than 1.96. This means that the relationship between product innovation and service quality variables on the competitive advantage variable through the corporate image variable as a mediating variable is significant or can be said to mediate.

## DISCUSSION

### The Effect of Product Innovation on Competitive Advantage

The development of new products and their more effective strategies are often critical to the success and survival of a company, but this is not an easy job. New product development requires effort, time and ability including the magnitude of risk and cost of failure. From the results of the path analysis that has been carried out, it can be seen that the path coefficients and p-values of the Product Innovation to Competitive Advantage variable are 0.03 and <0.001. This means that the direct effect of Product Innovation on PT. Toyota Astra Motor in Malang Raya provides significant results for competitive advantage. When PT. Toyota Astra Motor in Malang Raya wants to increase its competitive advantage, by implementing Product Innovation, it will provide a guarantee for efforts to increase a company's competitive advantage. Cooper (2010) explains that the advantages of new products are very important in a highly competitive global market circle. These advantages cannot be separated from the development of the resulting innovation products, so that they will have an advantage in the market which will then win in the competition. High and good product innovation can increase the company's competitive advantage. The results of other studies (Gurniawan, 2011) also state that product innovation has a significant effect on competitive advantage.

Product innovation has become an important strategic approach for managers in creating sustainable competitiveness in a volatile and highly competitive business environment. Thus, product innovation provides an opportunity for companies to continue to exist and succeed against competitors. Companies that fail to innovate their products may be knocked out of the market

by their competitors. This could be due to the ever-changing needs of customers. Therefore, product innovation means different products to different people. Product innovation has become an important strategic approach to create competitive advantage in a dynamic and highly competitive global business environment (Nadar, 2013). However, new product or process innovations always require a bold leadership push. Product innovation encapsulates all the important efforts put into the product from conception to development and commercialization to meet the needs and expectations of customers and all stakeholders (Nadar, 2013).

The main purpose of the company in conducting product innovation is to meet market demand so that product innovation is one that can be used as a competitive advantage for the company (Andreassen et.al, 2016). Companies must have innovative products so that product sales are high and have a competitive advantage. Therefore, companies are required to provide new ideas, new ideas and offer innovative products and improve services in order to satisfy consumers. Sismanto's research (2016) states that "market orientation and product innovation, either simultaneously or partially, have a positive effect on competitive advantage". These results are in line with Sugiyarti (2013) and Tung, (2012) who found that product innovation has an effect on competitive advantage. This means that the company PT. Toyota Astra Motor in Malang Raya is able to design its products according to the customer's wishes and will be able to survive in the midst of competition because its products are still in demand by consumers.

Porter, et al. (2018) explains that product innovation can expand the market and therefore increase industry growth and/or enhance product differentiation. With product innovation applied to PT. Toyota Astra Motor in Malang Raya, the company is doing product development, so that it can create products that have a competitive advantage. Companies that are able to create or design product innovations based on consumer desires can be a weapon in surviving in the midst of competition because their products are still in demand by consumers. In the end, product innovation is a strategy to increase the value of product as the key to success that brings the company to have a competitive advantage. Sugiyarti (2013) and Tung, (2012) who found that product innovation affects competitive advantage. It means PT. Toyota Astra Motor is able to design its products according to the customer's wishes and will be able to survive in the midst of competition because its products are still in demand by consumers. So product innovation can be used as a source of competitive advantage. Thus, product innovation can be used as a source of competitive advantage for the company.

### **The Influence of Service Quality on Competitive Advantage**

Service Quality identifies efforts to fulfill consumer needs and desires as well as the accuracy of delivery in balancing consumer expectations. Service is a form of activity in providing assistance or providing the needs of other people or the community regarding the needs of goods or services. Because quality refers to everything that determines customer satisfaction, a product produced can only be said to be of quality if it is in accordance with customer desires, can be used properly, and produced in a good and right way (Gurniawan, 2011). From the results of the path analysis that has been carried out, it can be seen that the path coefficients and p-values of the Service Quality variable to Competitive Advantage are 0.15 and 0.262. This means that the direct influence of Service Quality on PT. Toyota Astra Motor in Malang Raya gives insignificant results on competitive advantage. When PT. Toyota Astra Motor in Malang Raya wants to increase its competitive advantage, by implementing Service Quality, it will provide a guarantee for efforts to increase a company's competitive advantage. This means that the service at PT. Toyota Astra Motor as much as possible can apply the principle of good service so that consumers are satisfied with the results they get. Not only that, it is necessary to do a good service system to be able to produce optimal performance.

Service quality can be improved, where what is important to do is the ability to form the promised service appropriately and have a sense of responsibility for service quality, as well as attention to customers. Improved service quality can increase the company's competitive advantage. Service Quality Differentiation Approach to Competitive Advantage According to Tjijtono & Gregorius (2011), another way to differentiate is to consistently provide better service quality than competitors. This can be achieved by meeting or even exceeding the quality of service that customers expect. According to Parasuraman, et al. (1998) service quality is defined as how far the difference between reality and customer expectations for the services they receive or obtain. In general, the quality provided by the company to consumers certainly has a goal with holding services so that consumers feel satisfied and the impact on the company is that the company will have value. more than its competitors. So this is a competitive advantage for the company. Previous research conducted by Jelcic (2014) in his journal shows that by providing good service quality, the company will gain a sustainable competitive advantage. By providing quality services, it will certainly become more value for itself both from consumers to companies and companies to competitors. Efforts to provide quality services to consumers trigger consumers to use the products and services of the company. Thus creating a competitive advantage.

It can be concluded if PT. Toyota Astra Motor wants to maintain and improve the quality of services offered to consumers so that it will be able to increase the competitiveness of the company. This is in accordance with the statement that the key to the success of a company lies not only in the product but also in the quality of services offered so as to be able to provide added value to consumers (Kotler & Keller, 2017). Research by Pritandhari (2015) and Wilar, et al. (2017), states that service quality has a positive and significant impact on competitive advantage. Further research by Makalew, et al. (2016), states that service quality has a negative effect on competitive advantage.

### **The Influence of Corporate Image on Competitive Advantage**

Resnick and Lilis (2011) state that the basic role of education, commitment and credibility that is built to form a company's image can support sales. A company's image can have a huge impact on sales and revenue. Smith and Barclay (1999) link the relationship of corporate image with sales through effective messaging. Corporate image involves a combination of product goals, service, management style, people needs and overall philosophy. A good corporate image will be reflected in the company's bona fide, management capability and company commitment. Likewise, the company's image is determined by the company's reputation and professionalism, ethical standards and customer orientation. From the results of the path analysis that has been carried out, directly the corporate image has a significant effect on competitive advantage. This can be seen from the path coefficients and p-value of the Corporate Image variable to Competitive Advantage of 1.18 and <0.046. This means that the direct influence of Corporate Image on PT. Toyota Astra Motor in Malang Raya provides significant results for competitive advantage.

When PT. Toyota Astra Motor in Malang Raya wants to increase its competitive advantage, the role of Corporate Image will provide a guarantee for efforts to increase a company's competitive advantage. This means that the image of the company at PT. Toyota Astra Motor is needed to influence customers' minds through a combination of advertising, public relations, physical form, word of mouth, and various actual experiences while using goods and services. From these statements it is implied that customers consider the company's ability to influence their perception of what is offered and will have an impact on customer buying behavior.

A good image can be formed from the creativity and hard work of the company. Maximally, the company will provide appropriate services in accordance with the company's wishes in an effort to maintain a positive image in the eyes of the public. So to realize the company's image is influenced by the public. In creating a positive image of the company, there must be open communication within the company. The image formation process must also be carried out over a long period of time. This is because the image is an assessment of the public about the company from the existence of information and many sources in a short period of time. Related to this, companies must have the ability to manage existing resources. The main thing that is done by the company in order to be able to win the competition with similar companies is to create a competitive advantage. A company is declared to have a competitive advantage when it is able to establish a strategy that is able to provide value to customers and cannot be done by other companies (competitors) at the same time. Competitive advantage is achieved by a company when it is able to maintain a position above competitors. The measurement of competitive advantage is the ability of competitors and the organization is declared to have a competitive advantage if it is above competitors in terms of its capabilities. Competitive advantage is expressed as a form of company superiority compared to competitors in the market and is able to direct the ability to present performance beyond competitors. Competitive advantage is considered as a form of advantage compared to its competitors in the market.

In connection with the results of research conducted by Rani Noviani (2019), namely the company's image has a positive and significant influence on competitive advantage, which can be interpreted that the better the level of employee service, the better the image of the company itself and the management of a service system that always prioritizes customers, the company's good image will always be known by the public and competitive advantage will be easily achieved. So to realize the company's image is influenced by the public. The existence of communication as well as the open nature of the company is considered to create a positive image. The image formation process must also be carried out over a long period of time. This is because the image is an assessment of the public about the company from the existence of information and many sources in a short period of time.

#### **The Influence of Corporate Image as Mediating Product Innovation on Competitive Advantage**

Image at PT. Toyota Astra Motor in Malang Raya also greatly affects all aspects of the company. A good image can be formed from the creativity and hard work of the company. Maximally, the company will provide appropriate services in accordance with the company's wishes in an effort to maintain a positive image in the eyes of the public. Related to this, of course, the role of Product Innovation in a company can help increase the competitive advantage of PT. Toyota Astra Motor in Malang Raya. When viewed from the results of indirect tests carried out, it can be seen that the t-statistic value of the Product Innovation variable on Competitive Advantage through Corporate Image is 7,630. These results indicate that the relationship between variables through indirect influence is  $> 1.96$ . This means that the relationship between the Product Innovation variable and the Competitive Advantage variable through the Corporate Image variable as a mediating variable is significant or can be said to be mediating. So that Product Innovation has a positive effect on Competitive Advantage through the mediation of Corporate Image. Related to this, the maximum value of the company's image, the more maximum competitive advantage. Image is considered as a reward for the company because it has many advantages so that the company can continue to develop and innovate in terms of meeting consumer needs. Some of the images that can be built by the company include the image of quality, image of innovation in both products and services, marketing image and so on. Kanaidi (2010) shows that corporate image is a company's achievement in providing an assessment of all that is offered to have an impact on consumer buying behavior and will increase a competitive advantage in the market.

#### **The Influence of Corporate Image as Mediation of Service Quality on Competitive Advantage**

Corporate image is stated as perfect mediation. Service quality at PT. Toyota Astra Motor is the key to success for most companies engaged in the service sector. Good service quality will affect the company's image. If the quality of service is good and according to the wishes of the customer, the image of the company will be even better. Image also greatly affects all aspects of the company. A good image can be formed from the creativity and hard work of the company. Maximally, the company will provide appropriate services in accordance with the company's wishes in an effort to maintain a positive image in the eyes of the public. When viewed from the results of indirect tests carried out, it can be seen that the t-statistic value of the Service Quality variable on Competitive Advantage through Corporate Image is 5,724. These results indicate that the relationship between variables through indirect influence is  $> 1.96$ . This means that the relationship of the Service Quality variable to Competitive Advantage through Corporate Image as a mediating variable is significant or can be said to mediate. So that Service Quality has a positive effect on Competitive Advantage through the mediation of Corporate Image. In line with this, the higher the value of the company's image, the higher the competitive advantage. In this regard, there is an indirect impact caused by service quality and company image on competitive advantage. Related to this, the higher the service quality, the more maximal the company's image will be in the company's competitive advantage.

Based on the results of research that still has relevance to the theory used by Day and Wensley in their book Instanto (2015) which shows that competitive advantage is competition in the fields of resources and expertise. Based on the results of research conducted by Syarif Hidayatullah, Ryan Gerry Patalo, Acmad Firdianjah and Abdul Waris (2019), the quality of service has an influence on competitive advantage. The results of research conducted by Wu, et al (2011) explained that the service quality of a company provided to customers of retail drug stores that sell Watson and Cosmed products in the Taipei area has a positive or significant impact on the company's image. This shows that good service quality can improve the company's image. This research is in line with the results of research conducted by Devinta Kris Amalia Putri (2018), namely the quality of service has a

positive and significant impact on competitive advantage. In this regard, the quality of service in meeting consumer needs such as in terms of service, in terms of price, in terms of delivery speed and in terms of security on goods, as well as in terms of Real Time Tracking and Reporting is good. so that the company has a competitive advantage.

## CONCLUSIONS AND SUGGESTIONS

### Conclusion

The results of this study indicate that product innovation variables are able to directly encourage competitive advantage. This is because to ensure increasing the competitive advantage it has is by implementing product innovation. While the quality of service has not been able to directly encourage competitive advantage. Meanwhile, companies must realize the importance of service quality or excellent service as the main success factor to enhance a company's competitive ability. And the image of the company, has a significant effect. Corporate image is able to mediate the effect of product innovation and service quality on competitive advantage, and includes partial mediation.

### Suggestion

The implementation of product innovation and good service quality in the operation of a company needs to be further improved so that later it will provide good results for a company and will further increase competitive advantage. The role of the company's image also greatly affects all aspects of the company. A good image can be formed from the creativity and hard work of the company. Maximally, the company will provide appropriate services in accordance with the company's wishes in an effort to maintain a positive image in the eyes of the public. Increasing competitive advantage can be done by considering the implementation of product innovation and good service quality effectively and of course supported by the role of the company's image itself.

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