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Influence of Digital Literacy, Customer Intimacy, and Brand Image on Competitive Advantage

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ABSTRACT

The rapid evolution of digital markets necessitates an in-depth understanding of factors influencing the competitive advantage of digital-based SMEs, particularly within the food and beverage sector of Palangka Raya City. This research aims to dissect the roles of digital literacy, customer intimacy, and brand image in shaping the competitive landscape for these businesses. Focusing on owners and managers, the study utilizes a non-probability purposive sampling technique, engaging 106 respondents through questionnaires. Analysis was conducted using the PLS-SEM method against a backdrop of diverse demographics, primarily female entrepreneurs aged 21 to 30 years with varied educational backgrounds, operating micro-businesses for 1 to 5 years. Contrary to expectations, digital literacy did not show a significant impact on competitive advantage, a finding that diverges from common digital strategy assumptions. In contrast, customer intimacy and brand image were positively correlated with increased competitive advantage, highlighting their importance in the digital domain for SMEs in Palangka Raya City. These insights stress the critical need for SMEs to cultivate strong customer relationships and a robust brand presence, overshadowing the direct effects of digital literacy skills. The findings suggest a strategic pivot towards customer-centric and brand-oriented practices could be more beneficial for SMEs aiming for competitive superiority in the digital era. This study underscores the nuanced dynamics of competitive advantage in digital-based SMEs, offering a foundational guide for future strategic orientations.

1. Introduction

The advent of the digital age has profoundly influenced numerous industries, including the realm of business. This influence is particularly notable among the micro, small, and medium enterprises (MSMEs) operating within the food and beverage industry in Palangka Raya City, which is navigating significant challenges brought on by the swift progression of information and communication technologies. These MSMEs, as highlighted by Adriana et al. (2023), must quickly adapt to digital

transformation to meet the changing consumer behaviors, including enhancing packaging hygiene and online marketing strategies. The pandemic has introduced younger entrepreneurs who bring fresh perspectives on market needs, innovative product packaging, and promotion through engaging social media content (Adriana et al., 2023). However, the digitalization process presents specific challenges and barriers, such as MSMEs' inability to adopt technology, limitations in online sales, production process challenges, and suboptimal online market



access, leading to consumer skepticism regarding digital transaction security (Wijoyo et al., 2020). Furthermore, most food and beverage MSMEs face conventional business management and production challenges, necessitating additional guidance, particularly in digital literacy and advertising content, to keep pace with rapid changes (Murtadho et al., 2022).

The accelerated digital adoption due to COVID-19 underscores the critical importance of enhancing digital literacy among Palangka Raya's MSMEs to remain viable, increase revenue, retain employment, expand market access, and contribute to community economic recovery (Sari et al., 2022). Additionally, logistical challenges linked to digitalization, reliance on neighboring cities for supplies, and logistic cost spikes affecting raw material availability and product pricing further emphasize the need for improved digital literacy to overcome technology barriers, optimize business processes, and capitalize on digital opportunities World Bank (2023). Thus, enhancing digital literacy is deemed critical for MSMEs to navigate technological hurdles, streamline business operations, and exploit digital opportunities, strengthening their technological foundation and competitiveness in an increasingly digital marketplace.

The decision to focus on the food and beverage industry for this investigation stems from the distinct place that digital-based MSMEs occupy within this sector, such as *Kopihan* and *Dapur Nyonya Sun*, which, despite not offering a physical venue for culinary experiences, hold potential as culinary tourism destinations. This approach is taken from the definition of culinary tourism by Ignatov & Smith (2006) conceptualization of culinary tourism is characterized as a travel endeavor that involves engaging with local food and beverage through buying, consuming, researching regional culinary offerings, and understanding the food production process from farm to table. This engagement can serve as either the

primary incentive for travel or a notable part of the journey.

The food and beverage sector in Palangka Raya faces increasingly complex challenges, aligning with Setiawan's (2021) observation that technological transformation has shifted the way consumers interact with products and services, necessitating rapid adaptation by MSMEs to remain competitive. Palangka Raya, being the economic hub of Central Kalimantan, harbors substantial potential for MSME growth. However, this potential can only be realized through a deep understanding of the factors enabling MSME success in the digital age. This study focuses on Digital Literacy, Customer Intimacy, and Brand Image to unravel how these elements contribute to forging a competitive edge for digital-based food and beverage MSMEs in Palangka Raya. By enhancing our understanding of the interplay and mutual influence of these factors, more effective strategies can be developed for MSMEs to bolster their competitiveness in a highly competitive market.

This research object is chosen for its distinctiveness from conventional food and beverage enterprises that typically emphasize physical dining experiences. In contrast, the subjects of this study leverage digital platforms to engage with consumers, presenting a novel intersection of technology, culinary art, and tourism that merits exploration. This divergence from traditional models highlights the imperative for specialized strategies in digital literacy, customer engagement, and brand development to navigate the digital transformation within the food and beverage sector effectively.

The research examines the complex interplay among Digital Literacy, Customer Intimacy, and Brand Image, analyzing their combined effects on the competitive edge of digital-based food and beverage MSMEs in Palangka Raya City. The investigation is predicated on the hypothesis that an enhanced understanding and application of Digital Literacy can significantly streamline business operations, enabling



MSMEs to effectively navigate the digital landscape. This includes the adept use of software, online platforms, and data analytics to optimize technological barriers and seize digital opportunities, thus laying a robust technological foundation for MSMEs to thrive in an increasingly digital market. Concurrently, the concept of customer intimacy, which emphasizes a deep understanding of and alignment with customer needs and preferences, is expected to play a pivotal role. In the digital environment, this entails leveraging customer data and analytics to tailor experiences closely to customer desires, thereby retaining existing customers and attracting new ones. Moreover, brand image is posited as a critical factor in distinguishing these MSMEs from competitors and drawing customer attention. In the digital era, brand image is shaped through social media, online reviews, and customer interactions, where a strong Brand Image can significantly enhance market differentiation and customer engagement.

The synergy between these variables is crucial; Digital literacy enables MSMEs to efficiently engage with the digital tools and platforms essential for modern business operations. In turn, this facilitates the cultivation of customer intimacy by providing personalized and meaningful customer interactions, fostering loyalty, and enhancing customer satisfaction. Simultaneously, a strong brand image, built on the pillars of digital literacy and customer intimacy, serves to solidify the market presence of these MSMEs, making them more appealing to both existing and potential customers. This interrelationship underscores the premise that digital literacy, customer intimacy, and brand image are not isolated factors but are interdependent components that collectively contribute to building a sustainable competitive advantage for digital-based food and beverage MSMEs in Palangka Raya. Thus, this study aims to explore these dynamics comprehensively, providing practical insights and strategies for MSMEs to leverage to enhance their competitive standing in a

challenging digital marketplace.

Given the focus on not directly investigating all three variables, digital literacy, customer intimacy, and brand image, in conjunction, a distinct research gap emerges from the existing literature. While studies like those by Fitriana et al. (2019) and more recent analyses by Sari et al. (2022) and Fitri et al. (2022) provide valuable insights into individual aspects of digital transformation, customer intimacy, and brand perception, there is a notable absence of research that comprehensively examines the interplay and collective impact of these variables on the competitive advantage of MSMEs within the specific context of the digital-based food and beverage sector in Palangka Raya.

This omission presents a significant research gap, particularly in understanding how these variables interact to influence MSMEs' competitive positioning in a digitally evolving marketplace. While previous studies have acknowledged the importance of digital literacy for business operation adaptation in the digital era and the role of customer intimacy in enhancing customer loyalty and satisfaction, they often do not explore the synergistic effect these variables, along with the brand image, have on competitive advantage. This gap is further widened by the lack of focus on the unique challenges and opportunities faced by food and beverage MSMEs in Palangka Raya, a context that may offer distinct insights due to its specific market dynamics, consumer behaviors, and digital infrastructure.

The objective is to fill the existing research void by investigating how digital literacy, customer intimacy, and brand image, when considered together, influence the competitive standing of digital-based food and beverage MSMEs in Palangka Raya. This approach seeks to uncover nuanced relationships between these variables, offering a more holistic understanding of the strategic elements crucial for MSMEs' success in the digital age. By addressing this gap, the research can provide targeted recommendations for MSMEs in Palangka Raya, aiming to enhance their competitive



edge through a coordinated strategy that leverages digital tools, fosters customer relationships, and strengthens brand perception in a cohesive manner.

This research presents a novel exploration into the synergistic effects of digital literacy, customer intimacy, and brand image on the competitive advantage of digital-based food and beverage MSMEs in Palangka Raya City, addressing a significant gap in existing literature where these variables have been examined in isolation or disparate contexts. By integrating these factors, the study unveils how their interplay uniquely influences the competitive landscape of Palangka Raya's digital-based food and beverage sector, offering fresh insights into enhancing MSME competitiveness in the digital era.

The findings promise substantial benefits for entrepreneurs, policymakers, and digital strategy consultants by providing actionable strategies for leveraging digital tools, fostering deeper customer relationships, and building stronger brand identities. Aimed at detailing the roles and interconnectedness of these critical factors, the research objectives focus on bolstering market positioning, customer loyalty, and brand differentiation among MSMEs, contributing valuable knowledge to the discourse on digital transformation and strategic competitive advantage in the MSME sector. Through this comprehensive analysis, the study not only enriches academic understanding but also equips stakeholders with the tools to navigate and excel in the evolving digital marketplace of Palangka Raya, marking a significant advancement in the field and setting a foundation for future research and strategic development.

2. Literature Review

Digital literacy

With the advancement of digital technology, awareness of digital literacy has increased significantly. This concept was first introduced by Gilster (1997) as the capacity to interpret and utilize information from a variety of sources and formats via

computer technology. Digital literacy encompasses the skills to comprehend issues and formulate questions to meet information needs effectively. This perspective is echoed by Martin & Madigan (2006), who articulate digital literacy as the knowledge, attitude, and abilities necessary to effectively employ digital tools and resources in specific contexts., supporting beneficial social actions. This includes managing, accessing, evaluating, integrating, and analyzing digital resources, then creating new knowledge and communicating with others.

Tinmaz et al. (2022) further elaborate that digital literacy, encompassing a range of technologies, requires a tailored approach, such as the creation of case studies for digital literacy on artificial intelligence or the use of drones. This development process demands extra effort since each target group has distinct skill needs, abilities, and competencies. It highlights the importance of participation from various experts such as technologists, instructional designers, and content specialists. Developing different digital frameworks for each technology, whether basic or advanced and in diverse situations, such as specific educational levels or industries, is an aspect that cannot be overlooked.

The influence of digital literacy on competitive advantage is highlighted in various studies. Fitriana et al. (2019) demonstrated a significant positive impact of digital literacy on the competitive advantage of Cinema 21, indicating that higher levels of digital literacy among Cinema 21 employees enhance its competitive edge. This proficiency enables Cinema 21 staff to effectively utilize information technology in various areas of their work, such as ticket sales, customer service, and marketing. Similarly, research by Sari et al. (2020), Balcı (2021), Laila et al., (2022), Sjachriatin et al. (2023) also found a positive and significant influence of digital literacy on competitive advantage.

H1: Digital Literacy positively and significantly affects Competitive advantage.



Customer intimacy

Customer intimacy is a strategic approach defined by Treacy et al. (1995) that emphasizes a deep understanding of customer needs, customization of products or services, and exceptional service to foster loyalty. This strategy requires a sales team that is adept, approachable, and supportive, ensuring customers make the best use of products or services, thereby achieving a level of satisfaction that distinguishes a company from its competitors. Krishnaraj (2022) and Wiersema (1998) further detail that Customer Intimacy extends beyond mere transactions to involve deep engagement, information exchange, and collaboration to fulfill customer needs effectively. This approach not only makes a company an irreplaceable partner to its customers but also underpins the development of Customer Relationship Management (CRM) strategies, focusing on understanding and meeting customer needs to secure loyalty and gain a competitive edge.

Research conducted by Mahsyar et al. (2022), uncovered that the variable of customer intimacy significantly boosts competitive advantage, accounting for 61.10% of its influence. The study suggests that while customer intimacy is a key driver of competitive advantage, there are other factors, constituting 38.90%, that were not examined in the research and could also play a role in shaping competitive advantage. Similar findings were also found in the research by Aryana et al. (2017), Sun (2020), Daulay et al., (2019), Bhat et al., (2016), Amer et al., (2020), wherein these studies the customer intimacy variable significantly and positively affects the competitive advantage variable. Based on the theory and previous research findings, Hypothesis 2 can be formulated as follows.

H2: Customer intimacy positively and significantly affects competitive advantage.

Brand image

Kotler et al., (2016) define brand image as a collection of extrinsic attributes of a product or service that fulfills consumers' social or psychological needs. Building a strong and positive brand image is the primary goal of every company. Similarly, Kotler et al. (1998) state that consumers form specific beliefs about each brand based on its attributes. Reinforcing this notion, Keller (1997) refers to brand image as consumers' perceptions of the brand, reflecting the associations stored in memory. Brand image, as described by Wijaya (2013), is a holistic representation formed from knowledge and information about the brand, closely related to attitudes and beliefs that shape preferences. Brand image is crucial as it is associated with reputation and credibility, guiding consumers in product or service usage. This perspective is reinforced by Zhang (2015), stating that the primary marketing strategy is to influence consumers' perceptions of the brand, shape brand image, and stimulate purchasing behavior.

Research conducted by Supriyantony et al., (2021) revealed that a positive brand image significantly influences the competitive advantage of Wall's ice cream products in South Tambun, Bekasi District. This finding underscores the importance of a strong brand image in enhancing a product's competitiveness against rivals. Furthermore, a reputable brand image not only boosts customer trust, leading to loyalty and the possibility of setting premium prices but also contributes to increased company profits. Similar conclusions about the impact of brand image on competitive advantage have been echoed in studies by Panda et al. (2018), Gobel et al. (2022), Dani et al. (2021), Wilar et al. (2017), Widiana et al., (2015), and Nurfajriani et al., (2021). Drawing on these theories and previous research findings, hypothesis 3 is formulated,

H3: Brand image positively and significantly affects competitive advantage.



Competitive advantage

David et al. (2016), a company's competitive advantage is described as its capacity to secure and sustain a dominant market position by surpassing its rivals across all operations and effectively utilizing its resources. Porter (1985) emphasizes that competitive advantage cannot be understood solely at the overall company level but can stem from various activities such as design, production, marketing, and delivery. Kotler et al. (1998) also contend that a company's competitive edge is rooted in its capability to present itself as a purveyor of unmatched value to a particular target demographic, whether this is achieved through cost advantages or by providing additional benefits that warrant higher pricing. This value proposition, as noted by Scarborough et al. (2016), highlights that a small business's value proposition sets it apart from competitors, allowing it to carve out a distinct market niche and surpass the competition in performance. Companies that fail to define their competitive advantage risk blending in with competitors and missing out on opportunities to lead the market or achieve above-average profits.

3. Methods

This research employs a quantitative approach to investigate the impact of digital literacy, customer intimacy, and brand image on the competitive advantage of digital-based food and beverage SMEs in Palangka Raya City, carried out from 8 November 2023 to 25 December 2023. It is grounded in positivism, emphasizing empirical data, measurement, and objective analysis for validity and reliability. A total of 106 respondents completed the questionnaire, thereby exceeding the initially planned sample size of 70 owners and managers. This increase ensures a robust representation of the population, based on the recommendation to have a sample size five times the number of research indicators (14 in this case). This contributes to the robustness and applicability of the research findings across broader contexts. The study meticulously defines its variables, with digital literacy, customer intimacy, and brand image as independent variables and competitive advantage as the dependent variable.

Table 1. Variable operational definitions.

Variable	Indicator	Source
Digital literacy	Browsing and searching (DL1) Developing digital content (DL2) Information processing and management (DL3) Evaluating data (DL4)	(Shariman et al., 2012)
Customer intimacy	Customer relationship (CI1) Marketing support (CI2) Service personalization (CI3)	(Kraemer et al. 1996) (Treacy et al., 1995)
Brand image	Favorability of Brand Associations (BI1) Strength of Brand Associations (BI2) Uniqueness of Brand Associations (BI3)	(Keller, 1997)
Competitive advantage	Product uniqueness Competitive pricing Scarcity Difficulty to imitate	(Bharadwaj et al. 1993)

Source: Processed Data (2024).



4. Results and Discussion

Respondent characteristics

This study investigates the impact of digital literacy, customer intimacy, and brand image on the competitive advantage of digital-based food and beverage SMEs in Palangka Raya City. Data was gathered from 106 owners and managers of these SMEs through questionnaires distributed both physically and online via Google Forms. The respondent characteristics were analyzed, including gender, age, educational background, marital status, number of dependents, business district, business duration, role in the SME, and business income, to understand how the variables influence competitive advantage in this context.

The analysis revealed a diverse demographic profile of respondents: a majority of 62.26% were female, indicating women's significant involvement in the digital food and beverage sector. Age-wise, most respondents fell into the 21-30-year range, reflecting a youthful entrepreneur demographic actively engaging in digital platforms for business. Education levels varied, with a significant portion having completed high school, suggesting that higher education is not a prerequisite for entrepreneurship in this sector. Additionally, most respondents were married and had two dependents, highlighting family-oriented business ownership. Business locations were predominantly in Pahandut and Jekan Raya districts, with the majority being relatively new businesses operating for 1-5 years. The role distribution showed a higher number of owners compared to managers, and income analysis categorized the majority of these SMEs as micro-enterprises with annual revenues of 0-300 million IDR. These characteristics provide a comprehensive overview of the digital-based food and beverage SME landscape in Palangka Raya City, offering insights into the sector's demographic and operational dynamics.

Validity test

The validity test results indicated that not all items met the established criteria. Specifically, the first item in the digital literacy variable, with a correlation of 0.663, and items 3 and 4 in the customer intimacy variable, with correlations of 0.693 and 0.698, respectively, did not meet the validity threshold and were excluded from further analysis. In contrast, all items in the brand image variable were valid and included for further study. Additionally, the first item in the competitive advantage variable, with a correlation of 0.694, also failed the validity test and was excluded. This process ensures that the analysis proceeds with only those items that accurately measure the intended variables, thereby enhancing the study's reliability and accuracy.

Reliability test

Digital literacy, customer intimacy, brand image, and competitive advantage exhibit high levels of reliability, with Cronbach's alpha and composite reliability scores well above the 0.60 threshold, as per Hair et al (2014), standards. Specifically, digital literacy scored 0.942 and 0.944, customer intimacy 0.929 and 0.932, brand image 0.954 and 0.957, and competitive advantage 0.963 and 0.967 for Cronbach's alpha and composite reliability respectively. These results affirm that the reflective indicators used in the research possess good composite reliability, meeting the suitability standards for exploratory research instruments. Hence, the tools employed in this study are deemed effective for accurately measuring variables such as digital literacy, customer intimacy, brand image, and competitive advantage.

In this study, hypothesis testing was conducted using path coefficient values, t-values, and p-values as the main statistical measures. The criteria for significance and hypothesis prediction were based on these values, adhering to the guidelines outlined by (Kock, 2016). A 95% confidence level ($\alpha = 5\%$) and a one-tailed approach were applied, establishing the



relevant t-table value at 1.64. This framework sets the foundation for evaluating the direct effects and the

acceptance or rejection of hypotheses within the research.

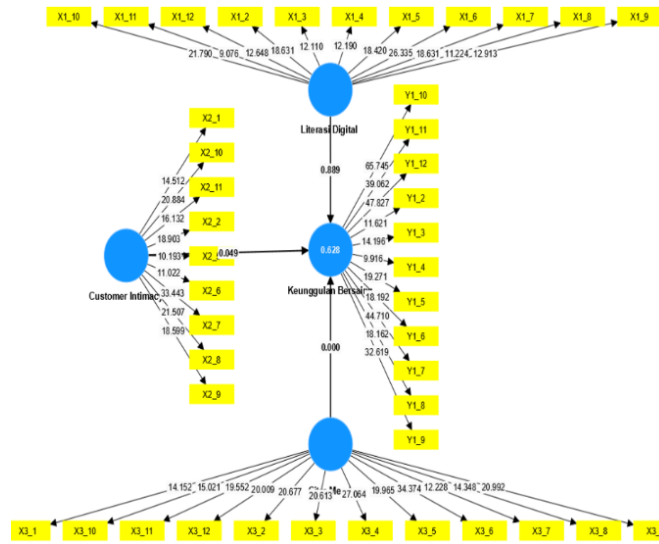


Figure 1. Structural model (beta coefficient).

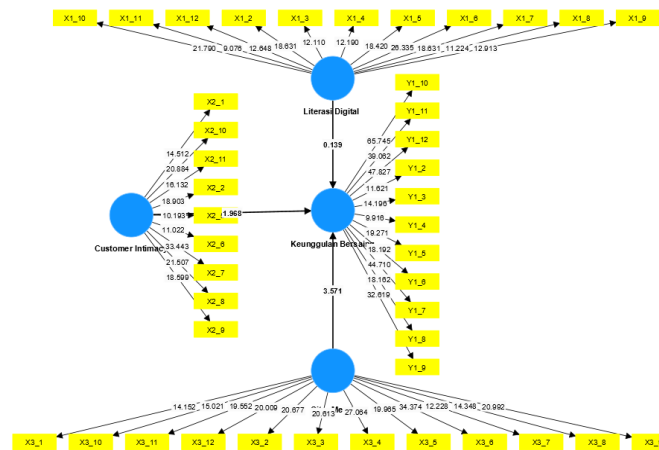


Figure 2. Significant value (t-value).

Regarding the impact of Digital Literacy (X1) on Competitive Advantage (Y), the analysis revealed no significant influence. This conclusion is supported by a t-statistic of 0.139, which falls below the t-table value of 1.64, and a p-value of 0.889, exceeding the 5% alpha threshold. As a result, the rejection of hypothesis Ha.1 suggests that Digital Literacy does not have a positive or significant impact on the competitive advantage for SMEs in the digital food and

beverage sector in Palangka Raya City.

Conversely, the variable Customer Intimacy (X2) showed a substantial impact on Competitive Advantage (Y), evidenced by a t-statistic of 1.968, exceeding the t-table value, and a p-value of 0.049, below the 5% alpha level. These findings lead to the acceptance of hypothesis Ha.2, suggesting that Customer Intimacy significantly and positively influences the competitive advantage in the digital-



based food and beverage SME sector in Palangka Raya City.

Furthermore, the effect of Brand Image (X3) on Competitive Advantage (Y) was found to be significantly positive. This is corroborated by a t-statistic of 3.571, surpassing the t-table benchmark and a p-value of 0.000, well below the 5% alpha criterion. As a result, hypothesis Ha.3 is accepted, demonstrating that Brand Image significantly enhances the competitive advantage in the digital-based food and beverage SMEs in Palangka Raya City. This series of hypothesis testing underlines the critical role of customer intimacy and Brand Image in shaping the competitive landscape of SMEs while also highlighting the limited influence of Digital Literacy within this context.

The analysis of digital literacy's influence on the competitive advantage of digital-based food and beverage SMEs in Palangka Raya indicates a lack of significant impact, contrasting with Fitriana et al. (2019) findings of its positive effect on Cinema 21's competitive edge. This discrepancy likely arises from the varying industrial contexts and digital literacy levels required in daily operations between the sectors. Unlike the critical integration of IT in Cinema 21's operations, SMEs in Palangka Raya may not fully utilize digital technologies, suggesting a potential area for these SMEs to bolster their competitive advantage through enhanced digitalization strategies.

Customer Intimacy's significant positive impact on competitive advantage in Palangka Raya's SME sector echoes Mahsyar et al. (2022) observations in a different context and Aryana et al. (2017) findings in the hospitality industry. This underscores the universal importance of Customer Intimacy in strengthening a business's market position, highlighting the need for Palangka Raya's SMEs to enhance customer relations as a strategic priority for competitive improvement.

Similarly, the study's identification of Brand Image as a key factor in achieving competitive advantage

aligns with Supriyantony & Jayadi (2021), Panda et al. (2018), Gobel et al. (2022), Dani et al. (2021), Wilar et al. (2017), Widyana et al., (2015), and Nurfajriani et al., (2021), who all noted its broad, positive impact across various industries. This finding emphasizes the crucial role of a strong Brand Image in improving consumer perception, satisfaction, and loyalty, enabling SMEs to effectively navigate a competitive marketplace. It reaffirms the strategic value of developing and maintaining a positive Brand Image as an integral component of business strategy.

The divergence in findings, particularly regarding Digital Literacy's impact compared to earlier studies, highlights the nuanced influence of industry context, operational scale, and the extent of digital technology adoption on competitive advantage. It suggests that the benefits of Digital Literacy are contingent on its depth of integration within company operations. The apparent underutilization of digital technologies by SMEs in Palangka Raya points to a significant gap in applying digital literacy for operational and strategic enhancements. These insights provide a critical reflection point for SMEs in Palangka Raya, indicating a pressing need to reevaluate and strengthen their digitalization strategies to secure and enhance their competitive standing in the market.

5. Conclusion

The evaluation of data from the investigation into digital food and beverage SMEs in Palangka Raya reveals a number of insights. Notably, against prevailing beliefs, the study demonstrates that Digital Literacy does not play a crucial role in enhancing competitive advantage. Despite expectations that higher levels of digital literacy could bolster competitiveness, particularly in this sector, the study does not validate this notion. Secondly, the research highlights the critical role of customer intimacy in influencing competitive advantage. Strengthening relationships with customers emerges as a key factor in both maintaining and elevating competitive



positions. This revelation emphasizes the importance for SMEs within Palangka Raya's food and beverage industry to focus on strategies that are centered around the customer to strengthen their market position.

Moreover, the study underscores the substantial contribution of Brand Image to competitive advantage. It emphasizes the significance of cultivating and preserving a robust brand image as a pivotal component of competitive strategies. For digital food and beverage SMEs, this underscores the imperative of allocating resources toward branding and marketing endeavors to cultivate positive perceptions of their brand. By investing in strategies that enhance customer relationships and brand image, SMEs can strategically position themselves to thrive in the competitive landscape of Palangka Raya's digital food and beverage market.

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