

EFFECT OF PRODUCT INNOVATION ON THE PROFITABILITY OF BUSINESS ORGANIZATIONS: A STUDY OF SELECTED PURE WATER COMPANIES IN BIDA METROPOLIS

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ABSTRACT

In today's dynamic and highly competitive market, product innovation has emerged as a vital strategic mechanism for driving firm performance, competitive advantage, and long-term sustainability. This study examines the effect of product innovation on the profitability of business organizations, with a specific focus on selected pure water (sachet water) manufacturing companies in Bida Metropolis, Nigeria. Anchored on Schumpeter's Innovation Theory, the Resource-Based View (RBV), and Dynamic Capabilities Theory, the conceptual framework evaluates how key dimensions of product innovation—such as advanced water treatment technologies, tamper-proof and branded packaging, product diversification, regulatory compliance (e.g., NAFDAC certification), and innovative distribution channels—impact core financial and operational profitability metrics. Synthesizing extant literature and empirical evidence, the study demonstrates a significant positive relationship between product innovation and firm profitability, driven by improved resource utilization, cost efficiency, increased sales volume, and heightened customer trust. However, the findings also highlight critical operational bottlenecks confronting small and medium-scale enterprises (SMEs) in the sector, notably severe financial constraints, high technology adoption costs, weak research and development (R&D) structures, and limited managerial capacity in strategic innovation. The study concludes that continuous product innovation is not merely an operational choice, but an essential strategic capability required for firm survival and profit growth in saturated markets. To overcome key barriers, the study recommends that SME management allocate dedicated financial resources for R&D and technology upgrades, undertake continuous capacity building in innovation management, and embed innovation-driven key performance indicators (KPIs) into financial performance systems. Furthermore, it advocates for targeted government interventions—such as accessible low-interest micro-loans and supportive policy frameworks—to foster sustainable growth across the pure water industry and similar manufacturing sub-sectors.

Keywords: Product Innovation, Profitability, Pure Water Industry, SMEs, Bida Metropolis, Resource-Based View, Competitive Advantage.

INTRODUCTION

In today's highly competitive and dynamic business environment, product innovation has emerged as a critical strategic tool for enhancing the profitability and long-term survival of business organizations. This is particularly relevant for small and medium-scale enterprises operating in developing economies such as: Nigeria, where intense competition, price sensitivity, and environmental challenges significantly influence business outcomes (OECD, 2021).

Profitability remains a core objective of every business organization, as it determines sustainability, growth potential, and the ability to reinvest in operations. Profitability reflects how efficiently a firm utilizes its resources to generate income above costs. Studies have shown that firms that prioritize product innovation tend to record improved sales volumes, customer loyalty, and operational efficiency, which ultimately translate into higher profitability (Akinwale & Adepoju, 2022). The pure water (sachet water) industry in Nigeria provides a

suitable context for examining the relationship between product innovation and profitability. In urban and semi-urban areas such as: Bida Metropolis, sachet water companies operate in a highly competitive market characterized by low entry barriers, similar product offerings, and price competition. As a result, firms are increasingly compelled to adopt innovative practices such as: improved water treatment processes, enhanced packaging, branding, and distribution strategies to gain competitive advantage and improve profit margins (Ogunleye & Owolabi, 2023). Despite the apparent importance of product innovation, many pure water companies still rely on traditional production methods with minimal emphasis on innovation, leading to reduced profitability and market stagnation. This study, therefore, seeks to examine the effect of product innovation on the profitability of business organizations, with specific reference to selected pure water companies in Bida Metropolis. By doing so, the study contributes to existing literature and provides practical insights for business owners, managers, and policymakers on how innovative

product strategies can enhance profitability and ensure business sustainability in a competitive environment.

Furthermore, limited managerial knowledge, financial constraints, and poor adoption of innovative technologies have hindered the implementation of effective product innovation strategies among pure water companies. As a result, firms struggle with declining sales, high operational costs, and weak competitive advantage (Ogunleye & Owolabi, 2023). This gap underscores the need for a focused investigation to determine how product innovation influences profitability and to provide evidence-based recommendations for improving business performance in the sector.

According to Schumpeter's theory of innovation, firms that continuously introduce innovative products are more likely to achieve competitive advantage and superior financial performance due to their ability to meet evolving market needs (Schumpeter, 1934). Contemporary studies have reaffirmed this position by emphasizing that innovation enables firms to differentiate their offerings, increase customer satisfaction, and sustain profitability in competitive markets (OECD, 2021).

Empirical studies conducted in developing economies indicate a strong positive relationship between product innovation and profitability. For instance, Akinwale and Adepoju (2022) found that small and medium-scale enterprises that invest in product innovation experience higher sales growth and improved profit margins compared to firms that rely on traditional production methods. Similarly, Adegbelemi and Ismail (2021) reported that product innovation enhances firm efficiency by reducing production waste and improving resource utilization, which ultimately contributes to increased profitability. These findings suggest that innovation is not limited to technological advancements alone but also includes incremental improvements that add value to products and processes. In the manufacturing and consumer goods sector, product innovation plays a significant role in shaping consumer perception and demand. Studies by Ogunleye and Owolabi (2023) revealed that firms that adopt innovative packaging, branding, and quality assurance measures are better positioned to attract customers and command premium prices. Innovative practices such as: improved filtration techniques, tamper-proof packaging, and compliance with regulatory

certifications have been identified as key drivers of market competitiveness and profitability (Nwankwo & Okorie, 2020).

Despite the documented benefits, several studies highlight challenges that hinder effective product innovation among small firms. Financial constraints, limited access to modern technology, and inadequate managerial skills have been identified as major barriers to innovation adoption in Nigerian enterprises (Olatunji & Adeyemi, 2022).

Concept of Product Innovation in Business Organizations: Product innovation in business organizations is fundamentally concerned with creating value for customers through the introduction of new products or significant improvement of existing ones. This value may arise from enhanced product quality, improved functionality, better packaging, or alignment with consumer preferences and regulatory standards. According to OECD (2021), product innovation enables firms to satisfy unmet market needs and respond proactively to environmental changes, thereby strengthening competitive positioning. In business organizations, product innovation serves as a strategic mechanism for differentiation, allowing firms to distinguish their offerings from competitors in saturated markets.

Empirical evidence suggests that organizations that embed innovation into their strategic orientation achieve higher market share and long-term profitability compared to non-innovative firms (Akinwale & Adepoju, 2022). Therefore, product innovation functions as a strategic asset that strengthens a firm's competitive edge and market relevance. Product innovation is also conceptualized as an organizational learning process that involves continuous knowledge acquisition, experimentation, and adaptation. Through innovation activities, firms learn from customer feedback, technological trends, and operational experiences, which improves future decision-making. According to Tidd and Bessant (2020), innovative firms develop dynamic capabilities that enable them to sense opportunities, seize them through new products, and reconfigure resources effectively.

Profitability and Performance Measurement in Manufacturing Firms: Profitability and performance measurement are central to assessing the success and sustainability of manufacturing firms. Common

profitability indicators include gross profit margin, net profit margin, return on assets, and return on investment, which collectively provide insight into financial health and operational efficiency (Pandey, 2021). In manufacturing firms, profitability is closely linked to production efficiency, cost control, product quality, and market demand.

In competitive industries, effective performance measurement enhances accountability and encourages continuous improvement. Studies indicate that firms that integrate innovation-related metrics into performance measurement systems are more likely to achieve superior profitability (OECD, 2021). Thus, profitability and performance measurement are interconnected tools that guide manufacturing firms toward efficiency, competitiveness, and long-term sustainability.

Product Innovation Strategies in the Pure Water Industry: The product innovation strategies in the pure water industries improvement in water treatment and purification technology. One major product innovation strategy in the pure water industry is the adoption of advanced water treatment and purification technologies. Improved filtration, reverse osmosis, and ultraviolet treatment enhance water quality and safety, which increases consumer confidence. Studies show that firms that invest in superior purification processes experience higher demand and improved profitability due to perceived product reliability (Nwankwo & Okorie, 2020).

Packaging innovation, including tamper-proof sachets, branded labels, and attractive designs, is another key strategy. Packaging serves not only as a protective medium but also as a marketing tool that differentiates products in a crowded market. Ogunleye and Owolabi (2023) note that strong branding and innovative packaging significantly influence consumer choice and willingness to pay.

Product variety enhances market reach and sales volume, especially in price-sensitive markets such as: Bida Metropolis. This flexibility enables firms to increase turnover and profitability (Akinwale & Adepoju, 2022). Innovation through compliance with regulatory standards, such as: NAFDAC certification, enhances product credibility. Certified products gain competitive advantage by assuring consumers of safety and quality, which positively impacts sales and profitability (OECD, 2021).

Innovative distribution strategies, including doorstep delivery and partnerships with retailers, improve product accessibility. Efficient distribution reduces stock shortages and expands market coverage, thereby increasing revenue generation (Olatunji & Adeyemi, 2022).

Challenges of Product Innovation in Small and Medium Enterprises: Limited access to finance is a major challenge facing SMEs in implementing product innovation. Innovation activities often require significant investment in technology, research, and skilled labor, which many SMEs cannot afford. Studies show that inadequate funding restricts innovation capacity and limits profitability growth (Akinwale & Adepoju, 2022). SMEs often lack structured research and development units, limiting their ability to generate and test new product ideas. This weakness reduces innovation output and market responsiveness (OECD, 2021).

Uncertain consumer demand and fear of innovation failure discourage SMEs from investing in new products. High risk perception negatively affects innovation decisions and long-term profitability (Pandey, 2021).

Prospects of Product Innovation in Small and Medium Enterprises: Product innovation enhances SMEs' ability to compete effectively by differentiating their products. Innovative firms attract more customers and achieve stronger market positions, leading to improved profitability (Porter, 2008).

Innovation-driven products generate higher sales volumes and profit margins. Empirical evidence confirms that innovative SMEs experience faster growth and financial sustainability (Akinwale & Adepoju, 2022).

Innovative products that meet consumer needs improve satisfaction and loyalty. Loyal customers provide stable revenue streams and reduce marketing costs, strengthening profitability (Kaplan & Norton, 2001).

Product innovation enables SMEs to adapt to regulatory changes, technological advancements, and shifting consumer preferences. This adaptability enhances business resilience and long-term survival (OECD, 2021).

Innovative SMEs contribute to job creation, income generation, and economic development. By improving productivity and profitability, SMEs play a critical role in national economic growth (Tidd & Bessant, 2020).

Theoretical Framework

1. Schumpeter's Innovation Theory: Schumpeter's Innovation Theory provides a strong theoretical foundation for examining the relationship between product innovation and profitability of business organizations. According to Schumpeter (1934), economic development is driven by innovation, which includes the introduction of new products, improvement in product quality, new production methods, and new market structures. Through innovative purification processes, packaging, and branding, firms can increase sales volume and profitability. Schumpeter's theory therefore explains how product innovation serves as a catalyst for improved financial performance and long-term sustainability of business organizations.

2. Resource-Based View (RBV) Theory: The Resource-Based View theory posits that firms achieve superior performance and profitability when they possess valuable, rare, inimitable, and non-substitutable resources (Barney, 1991). Product innovation is viewed as an outcome of effectively leveraging internal resources such as: technological capability, managerial expertise, and organizational knowledge. In the context of manufacturing firms and SMEs, product innovation reflects a firm's ability to transform its resources into unique products that competitors cannot easily replicate. For pure water companies, innovation in water treatment technology, packaging design, and quality assurance processes constitutes strategic resources that enhance competitive advantage. The RBV theory supports the topic by explaining how internally driven product innovation contributes to sustained profitability and improved organizational performance.

3. Dynamic Capabilities Theory: Dynamic Capabilities Theory extends the Resource-Based View by emphasizing a firm's ability to integrate, build, and reconfigure internal and external competencies in response to a changing environment (Teece, Pisano, & Shuen, 1997). This theory is particularly relevant in dynamic and competitive markets where consumer preferences and regulatory requirements frequently change. Product innovation is a manifestation of dynamic capabilities, as it enables firms to sense market opportunities, seize them through innovative products, and reconfigure resources accordingly. In the pure water industry, firms that can adapt quickly by improving product quality, packaging, and distribution are more likely to enhance profitability. Thus, the theory explains how continuous product innovation

supports organizational adaptability, competitiveness, and sustained profit growth.

Empirical Review: An empirical study by Akinwale and Adepoju (2022) examined the relationship between product innovation and firm performance among small and medium enterprises in Nigeria. This study empirically supports the view that product innovation is a critical driver of profitability in Nigerian business organizations. Adegbelemi and Ismail (2021) conducted an empirical investigation into innovation capability and profitability of manufacturing firms in emerging economies. The study revealed that product innovation significantly improves firm efficiency, reduces production costs, and enhances profitability. Ogunleye and Owolabi (2023) empirically examined competitive strategies and profitability of sachet water manufacturing firms in Nigeria. The study concluded that product innovation is essential for profitability and sustainability in the highly competitive pure water industry. This empirical evidence strongly supports the focus of the present study.

Summary: This study examined the effect of product innovation on the profitability of business organizations, with particular emphasis on manufacturing firms and the pure water industry. The discussion established that product innovation is a strategic tool that enables organizations to introduce new or significantly improved products that meet changing consumer needs and regulatory requirements. The literature reviewed showed that product innovation enhances value creation, strengthens competitive advantage, and promotes organizational learning. It also revealed that profitability and performance measurement are essential indicators of business success, as they reflect how efficiently firms utilize resources to achieve financial and operational goals. Empirical evidence from previous studies consistently demonstrated a positive relationship between product innovation and profitability, especially in small and medium enterprises. However, the study also highlighted significant challenges confronting SMEs, including financial constraints, limited technological capacity, weak managerial skills, and market uncertainty. Despite these challenges, the prospects of product innovation remain substantial, offering opportunities for improved profitability, customer satisfaction, adaptability, and contribution to economic development.

CONCLUSION

Based on the findings from the reviewed literature, it is evident that product innovation plays a vital role in enhancing the profitability and sustainability of business organizations. Firms that actively invest in product innovation are better positioned to respond to competitive pressures, improve product quality, and meet consumer expectations, which in turn leads to increased sales and profit margins. In manufacturing firms, particularly within the pure water industry, product innovation serves as a critical differentiating factor in a highly saturated market. Although small and medium enterprises face numerous constraints in implementing innovation strategies, the long-term benefits of product innovation outweigh the associated risks and costs. Therefore, product innovation should be regarded not as an optional activity but as a core strategic function that drives organizational performance and long-term growth.

RECOMMENDATIONS

1. Business organizations should allocate adequate financial resources specifically for product innovation activities, including research, product improvement, and technology acquisition, to enhance profitability and competitiveness.
2. Manufacturing firms, especially pure water companies, should invest in modern purification and packaging technologies to improve product quality, safety, and consumer confidence.
3. SME owners and managers should undergo continuous training in innovation management and strategic planning to strengthen their capacity to implement effective product innovation strategies.
4. Government and regulatory agencies should provide supportive policies, grants, and low-interest loans to encourage product innovation among small and medium enterprises.
5. Firms should integrate innovation-related indicators into their performance measurement systems to effectively track the impact of product innovation on profitability.

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