

## **ABSTRACT**

*The purpose of this study to analyze the effect of supplier management capability and product innovation on competitive advantage in Batik Micro, Small and Medium Enterprises (MSMEs) in Pekalongan Regency/City.*

*The populations of this study were batik MSMEs in Pekalongan Regency/City. The number of samples used in this study was 150 respondents with probability sampling technique. The analytical tool used to test all hypotheses is Structural Equation Modelling (SEM) with AMOS 26.0 software.*

*The result of this study showed supplier management capability have a positive and significant effect. Furthermore, product innovation mediated the effect of supplier management capability on competitive advantage in Batik MSMEs of Pekalongan Regency/City.*

*Keywords: Supplier Management Capability, Product Innovation, Competitive Advantage.*