



**LEVERAGING DIGITAL PRODUCT AND PROMOTION INNOVATION TO
ENHANCE COMPETITIVENESS IN SMALL AND MEDIUM ENTERPRISES
(SMES)**

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ABSTRACT

This study explores the role of product innovation and digital promotion in enhancing the competitiveness of Small and Medium Enterprises (SMEs). In globalization and digital transformation, SMEs face significant challenges, including shifting consumer preferences and heightened competition. Product innovation is critical in adding value and differentiating SME products. Meanwhile, digital promotion provides a cost-effective avenue for SMEs to reach broader audiences than traditional media. A quantitative research approach was employed, utilizing a survey method targeting SMEs across various sectors. The sampling used the total sampling method, with a sample of 70 people. The total sampling technique was used, and data were collected through Likert scale-based questionnaires. The findings reveal that the synergy between product innovation and effective digital promotion strategies significantly enhances SME competitiveness, increased sales, stronger customer loyalty, and improved market positioning. These results highlight the importance of adopting sustainable innovation practices and leveraging digital platforms strategically to thrive in an ever-changing market landscape. This study offers practical insights for SMEs to strengthen their market presence and maintain a competitive edge.

Keywords: product innovation; digital promotion; sme competitiveness; customer loyalty; market strategy

INTRODUCTION

Small and Medium Enterprises (SMEs) play an essential role in the national economy, especially in developing countries like Indonesia. SMEs significantly contribute to Gross Domestic Product (GDP), create jobs, and support inclusive economic development. However, in the globalization and digital transformation era, SMEs face significant challenges, such as increasingly fierce competition, changes in consumer preferences, and the need to adapt to modern technology (Herman & Nohong, 2022).

Product innovation is one of the key strategies for facing these challenges. SMEs can increase their competitiveness by creating unique, quality products that meet market needs. However, product innovation alone is not enough. In an increasingly digitally connected business landscape, digital promotion is an integral tool for introducing products to a broader consumer base. Digital platforms enable SMEs to reach global markets at a lower cost than traditional marketing methods (Herlinda et al., 2023). Product innovation is closely related to product launches. One form of product innovation is the existence of new products. New products include original, improved, modified, and new brands developed through research and development efforts (Mudmainah & Basuki, 2023). Therefore, companies, especially SMEs, must be able to create new assessments and ideas, offer innovative products, and improve service performance that satisfies customers. Continuous innovation in a company is a basic need that will enable it to create a competitive advantage. Innovation is an important function of management because innovation will determine superior business performance (Miar, 2023). Product innovation is creating new products that meet consumer needs and desires so that there is an interest in buying the product, which is expected to be realized through purchasing

decisions. Product innovation must create sustainable competitive advantages in a rapidly changing environment and towards a global market. Product innovation success requires a match between the process and a supportive environment. An entrepreneur applies new and creative ideas to introduce innovation in a product or service to obtain product results more efficiently through innovative paths (Mtsweni et al., 2020).

Digital marketing is one of the most widely used marketing media by the public to support various types of events. They are gradually shifting from conventional market models to modern models, digital marketing. Digital marketing can communicate and transact at any time (Parebong, 2023). The fact that today's modern consumers are always connected to technology has changed the pattern of product marketing. Undoubtedly, business actors must consider digital marketing strategies. A digital marketing strategy is a series of actions designed to help businesses achieve goals using the internet medium or the internet (Radhiana et al., 2023).

Along with the current business development and increasing production, many MSME empowerment efforts also need to expand their product marketing. Indonesian MSMEs often experience difficulties in development; one of the causes is limited marketing coverage. Digital marketing is a marketing strategy that involves promoting products to customers quickly. Until now, many small and medium enterprises (MSMEs) in Indonesia have not used digital marketing as a marketing strategy. Because digital marketing seems easier for customers and sellers, many buying and selling transactions currently use it. Sellers can access a broader market, and customers can compare prices between sellers (Fadhilah & Pratiwi, 2021). Business people use digital marketing strategies to increase the use of Internet media in the market (Pasaribu et al., 2023). There are two advantages of digital marketing. Compared to conventional advertising, digital marketing is cheaper and makes it easier to reach many customers. The nature of digital marketing allows customers to check and compare products more efficiently. Compared to conventional media such as print, radio, and television, digital marketing provides vast information. Digital marketing can also store accurate data for businesses.

This study explores how product innovation and digital promotion contribute to increasing the competitiveness of SMEs. By combining these two approaches, it is expected that SMEs will be able to strengthen their position in the market, increase revenue, and create consumer loyalty. This study is important because it can provide insight for SME players, policymakers, and academics regarding effective strategies to encourage SME growth in the digital era. By understanding the role of product innovation and digital promotion, SMEs can develop strategic steps to face challenges and take advantage of opportunities in the ever-evolving business ecosystem.

RESEARCH METHODS

This study discusses the Importance of Marketing Strategy in Facing Business Competition in the Digital Era. The type of research used in this study is quantitative research. The quantitative research method is a type of research whose specifications are systematic, structured, and digested from the beginning to the creation of the research design. We conducted interviews (observations) and questionnaires in the SME industry. The things asked of respondents are things related to the marketing strategy. The data analysis used in this study is descriptive research; according to (Sugiyono, 2021), the purpose of a descriptive study is to describe the characteristics of a particular object, phenomenon, or event.

According to Arikuntoro (2010:172), data can be divided into two types: primary data and secondary data. Primary data is data obtained firsthand by researchers for a specific purpose, while secondary data is obtained by other people or institutions that are used for a

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specific purpose. In this study, researchers used primary data along with secondary data. The primary data used is interviews (observations) with e-commerce industry owners. For secondary data, researchers use relevant data according to the study objectives, such as questionnaires, online media, and journals.

The method used in this study is a survey method with a descriptive quantitative approach. The tool for collecting data is a questionnaire with a sample size of 70 respondents in this study. The method used to test the magnitude of the influence using simple linear regression with the help of the IBM SPSS 26 program. Based on the results of the data analysis that has been carried out, it is concluded that digital marketing strategies influence business growth in the digital era. Hopefully, this study can provide knowledge and insight for the SME industry.

RESULTS AND DISCUSSION

Results

Description of Research Subject

The description of the research subjects is clearly shown in the following table:

Table 1. Description of Research Subject

| No | Factor | Category | Amount |
|----|--------|-----------|--------|
| 1 | Gender | Man | 12 |
| | | Woman | 48 |
| 2 | Age | >20 years | 19 |
| | | 20 - 40 | 41 |

The subject categorization is divided into five categories: high, high, medium, low, and very low. The categories of very high, high, medium, low, and very low are based on categorization calculations using hypothetical mean and standard deviation. Hypothetical score description data for categorization calculations and empirical score data can be seen in Table 2 below:

Table 2. Statistical Description of Research Data

| Variables | Hypothetical | | | | Empirical | | | |
|--------------------|--------------|-----|------|----|-----------|-----|-------|-------|
| | Min | Max | Mean | SD | Min | Max | Mean | SD |
| Product Innovation | 16 | 64 | 40 | 8 | 30 | 57 | 43.78 | 4,727 |
| Digital Marketing | 20 | 80 | 50 | 10 | 44 | 68 | 57.03 | 4,812 |
| Competitiveness | 20 | 80 | 50 | 10 | 37 | 63 | 54.18 | 6,610 |

The following is the categorization of research subjects for each research variable:

Table 3. Product Innovation Variable Categories

| Interval | Category | Amount | Presentation | Category |
|------------|-----------|--------|--------------|-----------|
| 84%-100% | Very high | 5 | 5% | Very high |
| 68%-83.99% | Tall | 32 | 33% | Tall |
| 52%-67-99% | Currently | 8 | 8% | Currently |
| 36%-51.99% | Low | 25 | 26% | Low |
| 20%-35.99% | Very Low | 0 | 0% | Very Low |

The categorization of Product Innovation variables for the very low category is none; the low category has 25 subjects (26%), the medium category has eight subjects (8%), and the high category has 32 subjects (33%). The very high category has five subjects (5%). Based on the table categories above, the product innovation variables are mainly in the high and medium categories.

Table 4. Digital Marketing Categories

| Interval | Criteria | Amount | Presentation | Category |
|----------|----------|--------|--------------|----------|
|----------|----------|--------|--------------|----------|

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| | | | | |
|------------|-----------|----|-----|-----------|
| 84%-100% | Very high | 7 | 7% | Very high |
| 68%-83.99% | Tall | 44 | 45% | Tall |
| 52%-67-99% | Currently | 9 | 9% | Currently |
| 36%-51.99% | Low | 7 | 7% | Low |
| 20%-35.99% | Very Low | 3 | 3% | Very Low |

Digital Marketing variable categorization for the very low category, there are three subjects (3%); in the low category, there are seven subjects (7%); in the medium category, there are nine subjects (9%); the high category there are 44 subjects (45%), while the very high category there are seven subjects (7%). Based on the table category above, the digital marketing strategy variables are mainly in the high and medium categories.

Table 5. Competitiveness Categories

| Interval | Category | Amount | Presentation | Category |
|------------|-----------|--------|--------------|-----------|
| 84%-100% | Very high | 2 | 2% | Very high |
| 68%-83.99% | Tall | 39 | 39% | Tall |
| 52%-67-99% | Currently | 27 | 27% | Currently |
| 36%-51.99% | Low | 4 | 4% | Low |
| 20%-35.99% | Very Low | 0 | 0% | Very Low |

Categorization of Competitiveness Variables For the very low category, there are zero subjects (0%); in the low category, there are four subjects (4%); in the medium category, there are 27 subjects (27%), the high category there are 39 subjects (39%), while the very high category there are two subjects (2%). Based on the table categories above, the competitiveness variables are mainly high and medium.

Assumption Test Results

Before conducting a hypothesis test using regression analysis, a normality and linearity assumption test is first conducted. This is done to determine whether the research subject data follows a standard curve that shows the representativeness of the research subject to the population and a linearity test to determine whether each independent variable follows a linear line to the dependent variable. The following are the results of the normality and linearity assumption test:

Table 6. Normality Test Results

| One-Sample Kolmogorov-Smirnov Test | | Unstandardized Residual |
|--|----------------|-------------------------|
| N | | 70 |
| Normal Parameters ^{a,b} | Mean | .0000000 |
| | Std. Deviation | 7.43549096 |
| Most Extreme Differences | Absolute | .092 |
| | Positive | .055 |
| | Negative | -.092 |
| Test Statistics | | .092 |
| Asymp. Sig. (2-tailed) | | .200 ^{c,d} |
| a. Test distribution is Normal. | | |
| b. Calculated from data. | | |
| c. Lilliefors Significance Correction. | | |
| d. This is a lower bound of the true significance. | | |

Based on the SPSS output table, the significance value of asiymp is known.Sig (2-tailed) of 0.200 is more significant than 0.05. So, according to the basis for decision-making in the Kolmogorov-smirnov normality test above, it can be concluded that the data is normally

Table 7. Linearity Test Results

| | | | ANOVA Table | | | | |
|---------------|---------|----------------|-------------|------|-----------|----------|-------|
| | | | Sum of | Mean | | | |
| | | | Squares | df | Square | F | Sig. |
| Business | Between | (Combined) | 55584.010 | 23 | 2416.696 | 398,261 | .066 |
| Growth | Groups | Linearity | 52048.373 | 1 | 52048.373 | 8577.353 | .008 |
| Business | | Deviation from | 3535.637 | 22 | 160,711 | 26,484 | .0200 |
| Strategy | | Linearity | | | | | |
| Within Groups | | | 279,133 | 46 | 6,068 | | |
| Total | | | 55863.143 | 69 | | | |

Based on the significant value (sig) of the output above, the deviation from the linearity sig value is 0.200, which is greater than 0.05. So, it can be concluded that there is a significant linear relationship between the digital business strategy variable and the business growth variable in the digital era.

Hypothesis Test Results

Based on the results of the regression analysis, the following research results were obtained, Major Hypothesis: From the results of the regression analysis, the Txy score (R) = 0.200: p = 0.000 (p < 0.01) was obtained. This shows a significant influence of product innovation and digital marketing in increasing competitiveness towards small and medium units. Another result obtained is the coefficient of determination (R-Square) value of 0.932, which means that competitiveness is influenced by 93.2% by the variables of product innovation and digital marketing. At the same time, other factors influence the remaining 6.8%.

Minor Hypothesis: The analysis results obtained from the product innovation and digital marketing variables have a value of r = 0.965; p = 0.006 (p < 0.05), then the hypothesis is accepted. This proves that product innovation and digital marketing are significant to the competitiveness of small and medium units. The coefficient of determination value indicated by R-Square is 0.932. This figure shows that product innovation and digital marketing effectively contribute to 93.2%.

Discussion

Product Innovation

Product innovation is closely related to product launches. One form of product innovation is the existence of new products. New products include original products, improved products, modified products, and new brands developed through research and development efforts (Wilujeng & Mustikowati, 2018). Therefore, companies, especially SMEs, must be able to create new assessments and ideas, offer innovative products, and improve service performance that satisfies customers. Continuous innovation in a company is a basic need that will be able to create a competitive advantage, so innovation is an important function of management because innovation will determine superior business performance (Sirait, 2021). According to (Ringhard et al., nd), Product innovation can be seen as a functional advancement of a product that can bring the product one step ahead compared to its competitors' products. Product innovation is important for sustainable business continuity for small and medium-sized companies. Efforts to carry out product innovation are an important function of a company's management because product innovation can determine quality marketing performance (Herman & Nohong, 2022).

Digital Marketing

Social media is the easiest digital marketing tool to use. Social media can be the gateway for a business to launch in cyberspace to reach a wider target market that is difficult to reach in the real world. The speed of the dissemination of information is an advantage that can be obtained by utilizing social media. Not only that, things conveyed through social media also have the power to be easily shared. Feedback from the audience can also be immediately seen and analyzed to determine the progress of the relevant market. In addition to low costs and no special skills needed to initiate, social media is considered capable of directly reaching (engaging) potential consumers. Demands and opportunities to activate business marketing strategies through digital marketing (digital marketing or online marketing). This strategy can utilize various digital platforms to be able to generate optimal sales, build brands, and ensure profitable and sustainable businesses (Hamidy, 2017).

According to Fadhilah & Pratiwi, (2021) Digital marketing is also a practical approach to marketing a product to reach customers quickly and on time. Every day, business actors are starting to change to utilize information and telecommunications technology to run or support their business activities. Digital technology has influenced all aspects of human activity, including marketing. Digital-based marketing is used to acquire consumers, build their preferences, promote brands, maintain consumers, and increase sales, ultimately increasing profits. Digital marketing lets buyers obtain all product information and transact via the Internet. It allows sellers to monitor and provide the needs and desires of prospective buyers without time and geographic limitations. Digital marketing is a two-way communication method to increase public awareness and engagement towards specific products and brands. Platforms that are often used for digital marketing

Marketing plays a crucial role in the running of a business. Marketing is also needed to analyze consumer behavior, which is used to find the right place to sell products. Every money spent and product development carried out will be in vain if marketing in a business does not run well. Digital marketing has become an important tool for competing in the market because people have entered the digital era, so digital marketing is the most efficient tool for reaching consumers today. Thus, research in the field of marketing, especially in the field of digital marketing, is interesting to do.

Competitiveness

Competitiveness is the ability of a business to survive and thrive amid market competition. In small and medium enterprises (SMEs), competitiveness is crucial because SMEs often face limited resources, low technological access, and a lack of financial support. The following is a discussion of SME competitiveness, including the factors that influence it, improvement strategies, and the government's and related stakeholders' role (Irfani et al., 2020).

Competitive advantage for SMEs is primarily determined by the ability of the SME to anticipate globalization. Measuring competitive advantage for SMEs uses indicators of dynamic capabilities, innovation, and global orientation (Mohd Rosli Associate Professor, 2012). Dynamic capabilities include firm management, HRD, and marketing, which are resource capabilities owned by the organization. The drive for customer demand and efficiency of promotional costs, thus making prices more competitive for consumers, forces SMEs to start actively using digital marketing and social media that allow customers to purchase SME products anywhere (Abdi & Chalimah, 2020).

In order to increase the competitiveness of SME products, strategic steps need to be taken according to the capabilities and resources of SMEs. One strategic step that can be taken is through a halal certification program. This program is important for SMEs because halal

certification will increase consumer satisfaction and create better business prospects (Agustina et al., 2019), as well as compliance with Government provisions stated in Law No. 33 of 2014 concerning Halal Product Guarantees (Gunawan et al., 2021). Halal certification is a guarantee of the halal of a product, considering that there is a risk of changing halal status to non-halal, which occurs due to the activity of changing raw materials until consumers receive the product (Wahyuni et al., 2023).

CONCLUSION

Product innovation plays a crucial role in enhancing the competitiveness of SMEs by enabling the creation of new, unique, and high-quality products that address market demands. This approach helps SMEs build a sustainable competitive advantage. Additionally, digital promotion allows SMEs to expand their reach to a broader audience at a low cost through platforms such as social media. These platforms offer significant advantages, including improved accessibility, faster information exchange, and higher interactivity. The overall competitiveness of SMEs is largely determined by their ability to adopt innovation, leverage digital technologies, and enhance marketing efficiency. Research indicates that this strategy can boost business performance by as much as 93.2%. In conclusion, integrating product innovation with digital promotion is a key strategy for SMEs to not only survive but thrive in the digital age.

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