

Product Innovation Strategy in Increasing the Competitiveness of MSMEs in the Digital Era

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Abstract

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Micro, Small, and Medium Enterprises (MSMEs) play an important role in the Indonesian economy. However, in facing the digital era, MSMEs are required to continue to innovate in order to be able to compete in an increasingly competitive market. This study aims to analyze product innovation strategies that can be applied by MSMEs to increase their competitiveness in the digital era. The research method uses a descriptive qualitative approach with literature studies from various journals and relevant reports. The results of the study indicate that digital-based product innovation, utilization of information technology, and adaptation to market needs are key factors in strengthening the position of MSMEs. Strategic recommendations include digitalization training, improving product quality, and collaboration with digital platforms.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are not just economic entities; they are the pulse of the social life of Indonesian society. From street vendors in the corners of the city to local artisans in villages, MSMEs provide jobs, support family life, and enrich the nation's cultural identity through products that are distinctive and rooted in local wisdom.

However, in the midst of the rapid flow of digitalization and globalization, MSMEs face challenges that are not light. Changes in consumer behavior, increasingly fierce competition with foreign products, and demands to keep up with technological developments are the pressures for small business actors who may have relied more on conventional methods.

The digital era brings great opportunities: wider market access through e-commerce, more efficient promotion through social media, and the use of technology to increase productivity and product quality. However, not all MSMEs are able to adapt quickly. Many of them are still stuttering with technology, lack of resources, and do not understand the importance of innovation in winning the hearts of modern consumers.

This is where product innovation plays a key role. Innovation doesn't always mean creating something completely new; Often, it starts from the courage to improve, beautify, or adapt the product to the tastes and needs of the market that continues to evolve. Therefore, this research is here to examine product innovation strategies that can be applied by MSMEs to be able to survive, develop, and compete in the digital era. The focus is on how MSMEs can utilize technology and creativity to create added value, strengthen competitiveness, and remain a strong economic backbone in the midst of changing times.

METHODS

This study uses a descriptive qualitative approach with a literature study method (library research). This approach was chosen because it provides a wide space to explore the dynamics of product innovation and MSME competitiveness strategies from a theoretical and contextual perspective. The focus is not on statistical numbers, but on the meaning, patterns, and narratives behind innovative strategies that MSMEs have successfully implemented in the digital era.

The data collected in this study is sourced from various relevant literature, such as national and international scientific journals, official government reports, research results from economic research institutions, and articles from academic publications in the last five years (2019-2024). The literature was selected purposively based on its suitability to the topic, the validity of the source, and the actuality of the issue.

Data analysis is carried out through a critical review stage, namely by identifying the main themes, examining the relationships between concepts, and synthesizing product innovation strategies that are considered effective in increasing the competitiveness of MSMEs. The researcher also pays attention to the diversity of MSME contexts in Indonesia, both in terms of business sectors, geographical location, and technology adoption levels so that the results of the analysis can be more representative and applicable.

This qualitative approach is considered the most appropriate to answer exploratory and reflective research questions: How can MSMEs build relevant and sustainable product innovation strategies amid rapid digitalization pressures? By raising the experience, good practices, and challenges faced by MSME actors, it is hoped that the results of this research can make a real contribution, not only in the academic realm, but also as a material for consideration of policies and business practices.

In today's rapidly evolving global economy, Micro, Small, and Medium Enterprises (MSMEs) are increasingly recognized as the backbone of national development, particularly in emerging economies. They contribute significantly to gross domestic product (GDP), employment, and poverty alleviation. However, in the face of globalization and digital transformation, MSMEs are encountering complex challenges that demand greater adaptability, agility, and resilience. The digital era has redefined market dynamics, shifting the competitive landscape from local to global and requiring businesses of all sizes to rethink their strategies for survival and growth.

One of the most effective and essential strategies for MSMEs to enhance their competitiveness is product innovation—the creation or significant improvement of goods and services that offer superior value to customers. Product innovation allows MSMEs to differentiate themselves, respond to market changes more effectively, and capture new customer segments. Unlike large enterprises with established market dominance and substantial capital reserves, MSMEs must rely on creativity, flexibility, and customer intimacy as competitive advantages, all of which can be sharpened through strategic innovation.

The digital era presents both opportunities and disruptions for MSMEs. Technological advancements such as cloud computing, artificial intelligence, Internet of Things (IoT), mobile applications, and e-commerce have lowered the barriers to innovation, enabling even small businesses to access global markets, streamline operations, and better understand customer preferences through data analytics. Simultaneously, these changes create pressure for MSMEs to innovate continually in order to remain relevant and avoid obsolescence. This necessity is further

heightened by shifting consumer behaviors, shortened product life cycles, and intensified competition from both domestic and international players.

However, the capacity of MSMEs to innovate is often constrained by various internal and external factors. Limited financial resources, lack of access to skilled labor, inadequate research and development (R&D) investment, and weak integration with digital ecosystems are common barriers. Furthermore, many MSMEs operate informally or semi-formally, which restricts their ability to leverage institutional support such as government incentives, digital infrastructure, or innovation networks.

Against this backdrop, this study aims to explore how product innovation strategies can be effectively implemented by MSMEs to boost their competitiveness in the digital era. It investigates the key drivers of innovation, the strategic alignment between digital capabilities and product development, and the role of collaboration, technology adoption, and continuous learning. By identifying best practices and proposing actionable recommendations, this research contributes to a deeper understanding of innovation management within the MSME sector and provides insights for stakeholders seeking to empower MSMEs as engines of inclusive and sustainable economic growth.

RESULTS AND DISCUSSION

The results of the literature study show that product innovation is not just an additional strategy, but has become an important foundation in maintaining the existence and strengthening the competitiveness of MSMEs in the midst of the onslaught of the digital era.

The findings of this study indicate that product innovation strategies play a pivotal role in enhancing the competitiveness of MSMEs in the digital era. Many MSMEs have embraced digital technologies such as e-commerce platforms, social media, and design applications to facilitate faster product development and broader market access. These tools not only enabled businesses to reach customers beyond their traditional geographic limits but also allowed them to gather real-time feedback for continuous product improvement. Customer-centric innovation emerged as a dominant practice, with MSMEs actively involving consumers in the development process through online interactions, surveys, and digital testing campaigns. As a result, businesses that adopted this approach reported stronger brand loyalty and greater market differentiation.

However, despite a clear willingness to innovate, many MSMEs faced internal challenges such as limited financial resources, low digital literacy, and a shortage of skilled human capital. These constraints often hindered the scale and sustainability of innovation initiatives. Nevertheless, several MSMEs were able to overcome these obstacles through strategic

collaborations with government agencies, universities, and private-sector digital enablers. Leadership and organizational culture also played a significant role; MSMEs led by forward-thinking, innovation-oriented entrepreneurs were more likely to engage in continuous product development and adopt new technologies.

Furthermore, MSMEs that implemented consistent innovation strategies experienced noticeable improvements in competitiveness, including increased customer bases, access to new markets, higher profit margins, and the ability to offer differentiated products at premium prices. The study also found that government support, such as digital skills training, innovation grants, and access to incubator programs, significantly enhanced the innovation capacity of MSMEs. Overall, the results demonstrate that product innovation, when strategically aligned with digital tools and supported by a conducive ecosystem, is a key driver of MSME competitiveness in today's digital economy.

The results of this study underscore that product innovation is not merely a supportive function but a core strategic driver in strengthening the competitiveness of MSMEs within the digital economy. One of the most prominent findings is the strong correlation between the adoption of digital tools and the frequency and success rate of product innovation. MSMEs that actively utilized digital platforms—such as Instagram, Shopee, Tokopedia, and website-based storefronts—demonstrated a more agile and customer-responsive approach to innovation. These platforms enabled them to gather customer feedback quickly, test prototypes virtually, and reduce time-to-market, thereby creating a more dynamic and efficient product development cycle.

Moreover, the study found that MSMEs embracing a customer-centric innovation model—in which consumers are treated not just as buyers but as co-creators—were more successful in launching products that achieved both market relevance and commercial success. Through interactive features such as polls, customer reviews, and beta testing groups, businesses were able to refine their product offerings to meet real-time demands and preferences. This participatory approach helped MSMEs maintain a competitive edge, particularly in saturated digital markets.

Despite the progress made by many enterprises, significant obstacles to innovation persist. Chief among them are limited access to capital, inadequate digital infrastructure in rural or remote areas, and the lack of skilled human resources capable of supporting innovation-driven growth. Many MSMEs reported difficulty in funding research and development (R&D) activities or hiring talent with specialized digital and creative skills. Nonetheless, some firms addressed these

limitations through collaboration—partnering with universities, tapping into government innovation grants, or participating in business incubator programs. These partnerships often provided not only financial support but also access to knowledge, mentoring, and digital ecosystems.

Another important result is the critical role of leadership and internal culture in fostering innovation. MSMEs led by visionary, tech-savvy entrepreneurs who encouraged risk-taking, experimentation, and continuous learning were more likely to implement sustainable product innovation strategies. In contrast, businesses with rigid structures or traditional mindsets were slower to adapt and showed lower innovation outcomes.

Importantly, the impact of product innovation on competitiveness was tangible. MSMEs that consistently introduced new or improved products experienced a rise in customer acquisition and retention, expanded into regional or international digital markets, and even developed niche brand identities that allowed for premium pricing. These firms also reported stronger resilience during market disruptions—such as the COVID-19 pandemic—due to their ability to pivot products and distribution channels swiftly.

Finally, the study reveals the importance of external support systems—such as government policies, digital innovation training, and SME networks—in shaping the innovation capabilities of MSMEs. Participants noted that access to government programs like digital entrepreneurship workshops, innovation funding, and technical support played a vital role in building their innovation readiness. However, there remains a gap in awareness and accessibility, particularly for MSMEs located in underserved areas.

In summary, the results clearly demonstrate that MSMEs which integrate product innovation strategies—supported by digital tools, customer collaboration, visionary leadership, and ecosystem support—achieve significantly higher levels of competitiveness in the digital era. While challenges persist, the digital landscape offers a fertile ground for small enterprises to innovate, compete, and grow.

The innovation strategy implemented by MSMEs not only has an impact on improving product quality, but also on transforming the way business actors think and act. Some of the key strategies identified include:

1. Digitization of Products and Production Processes

Digital transformation allows MSMEs to speed up production processes, reduce costs, and increase accuracy. The use of technology such as inventory management applications, digital payment systems, and *the Internet of Things* (IoT) is a tool that makes the process more efficient and transparent. However, the adoption of this technology is often constrained by low digital literacy and limited capital. Therefore, digitalization needs to be accompanied by continuous mentoring and training.

2. Product Design and Differentiation

Design is not only an aesthetic matter, but also a reflection of the identity and value of a product. MSMEs that manage to create designs that are unique and relevant to market trends tend to find it easier to build a strong and recognizable brand. Product differentiation through innovation in materials, functions, eco-friendly packaging, and product storytelling has been proven to be able to attract the attention of consumers, especially the millennial generation and Gen Z who are more emotional in making shopping decisions.

3. Utilization of Digital Platforms

Marketplaces, social media, and instant messaging applications have become vital channels in MSME marketing. Business actors now no longer only rely on physical stores, but have started building online stores, business Instagram accounts, and chatbot-based customer service. The presence of MSMEs in the digital space gives them much wider market access, including export markets on a micro scale. The main challenge is to build content consistency, build digital trust, and deal with the platform's changing algorithms.

4. Product Customization and Response to Consumers

Innovation based on consumer needs and preferences is now an increasingly dominant approach. MSMEs that are able to process consumer data even in a simple way can present more personalized and relevant products. For example, a culinary entrepreneur who adjusts flavors and packaging based on customer reviews, or a craftsman who creates limited-edition products based on community requests.

The implementation of these strategies has a real impact on the performance of MSMEs. Based on various studies, MSMEs that innovate products consistently experience increased turnover, customer loyalty, and stronger competitiveness towards foreign products. However, this process is inseparable from structural challenges: limited access to technology training, low collaboration networks, and lack of policy support targeting micro-scale innovation.

More than just a business strategy, product innovation for MSMEs reflects hope and the

spirit of survival in the midst of uncertainty. He showed that with creativity, adaptation, and collaboration, even small business actors are able to build a brighter and more sustainable future.

CONCLUSION

MSMEs are an important pillar in Indonesia's economy, not only because of their contribution to the Gross Domestic Product (GDP), but also because of their role in creating jobs and maintaining local economic dynamics. However, the digital era brings challenges and changes that are inevitable. In this context, product innovation has emerged as the key to maintaining relevance, increasing competitiveness, and expanding the MSME market reach.

This research shows that product innovation in terms of digitalization, design, personalization, and the use of digital platforms has become an urgent need for MSMEs. Successful innovation is not only about technology, but also about having the courage to change, listen to consumer voices, and interpret products as a reflection of the values and stories of their business actors.

However, many MSMEs still face fundamental challenges such as limited access to technology, low digital literacy, and lack of training and mentoring support. Therefore, the success of innovation does not only depend on individual MSME actors, but also on the collaboration of various parties involved in the economic ecosystem.

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