

## **EXPLORATION OF CHALLENGES AND OPPORTUNITIES IN THE INTEGRATION OF PRODUCT INNOVATION AND DIGITAL MARKETING IN THE DEVELOPMENT OF MSMEs IN THE FOOD SECTOR**

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### **ABSTRACT**

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the economies of developing countries, but face significant challenges in integrating product innovation and digital marketing. This study reveals that limited resources, both financial and human resources, as well as low digital literacy, are the main obstacles in optimizing MSME digital marketing strategies. Many business actors have difficulty using advanced digital marketing technology and analytical tools, resulting in ineffective marketing strategies. However, this study also found great opportunities through the use of customer data for product innovation and market expansion via digital platforms. By utilizing social media and e-commerce, MSMEs can expand their markets and reduce operational costs. These findings indicate that developing digital literacy and collaborating with the government and e-commerce platforms are essential to support the growth and sustainability of MSMEs. Therefore, this study recommends that MSMEs focus on improving digital literacy, using analytical tools, and utilizing customer data to increase competitiveness in the global market. This approach will strengthen MSMEs ability to face competitive challenges in the digital era.

Keywords: strategy, MSMEs, e-commerce, Digital Literacy

### **INTRODUCTION**

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the economies of developing countries by providing employment and also driving local economic growth and contributing to social stability (Dasaraju and Tambunan 2023; Husriadi 2023) . In the competitive era of globalization, product innovation and digital marketing are the main foundations in increasing the competitiveness of MSMEs (Husriadi, Ode Andi Rahmat Mulya, and Ayu Ningsi 2024; Sharabati et al. 2024) . Current global trends show a significant shift towards digitalization and innovation in business strategies, forcing MSMEs to adapt or be left behind (Elsa, Indrawati, and Caska 2025) . Although the integration of product innovation and digital marketing is the key to MSME competitiveness, business actors face significant

multidimensional challenges (Sagala and Öri 2024) . Research conducted (Castañeda et al. 2020) revealed that 68% of MSMEs in developing countries are constrained by limited financial and technological resources to adopt sophisticated digital marketing tools (Beck 2007) . In addition, the lack of technical expertise in data analysis and digital platform management limits the optimization of marketing strategies (Puro et al. 2022) . This problem is exacerbated by low digital literacy among MSME owners which causes a gap in understanding online marketing effectiveness metrics such as conversion rates or customer engagement (Wiggins 2022) . Furthermore, research (Husriadi et al. 2024; Zhang 2024) shows that only 24% of MSMEs are able to align product innovation with data-driven marketing strategies resulting in fragmentation in brand positioning. Furthermore, although many studies have discussed product innovation and digital marketing separately such as (Dambiski Gomes de Carvalho et al. 2021; Manalu, Rahimi, and Akbar 2023) , there is still a significant gap in the literature that connects the two aspects in the context of MSMEs. Therefore, this study aims to fill this gap by exploring the challenges and opportunities faced by MSMEs when integrating product innovation and digital marketing strategies. With an analytical approach, this study is expected to provide practical recommendations that can help MSMEs optimize digital marketing strategies so that they can improve competitiveness and business sustainability in the ever-evolving digital era. This study offers a holistic approach to understanding the integration of product innovation and digital marketing that is rarely explored in depth in the context of MSMEs. The findings of this study not only contribute to the development of marketing and entrepreneurship theories but also provide practical insights for MSMEs in optimizing digital strategies. In addition, the results of this study are expected to provide a strong empirical foundation for the formulation of policies that support the development of MSMEs in the digital era, with a focus on increasing competitiveness and business sustainability.

## **RESEARCH METHODS**

This study uses a qualitative approach with a case study design to explore in depth the integration of product innovation and digital marketing in MSMEs. The research procedure involves in-depth interviews with MSME owners and direct observation of their digital marketing activities. Data were collected through semi-structured interviews, documentation, and participant observation. Data analysis techniques used content analysis to identify patterns, themes, and meanings that emerged from qualitative data. Data validity was tested through source triangulation and member checking. Data analysis was carried out iteratively and continuously throughout the research process.

## **RESULTS AND DISCUSSION**

### **5.1 Main Challenges**

#### **5.1.1 Limited Resources**

Based on the results of the research that has been conducted, it shows that limited resources, both financial and HR capacity, are the main challenges in integrating product

innovation and digital marketing in MSMEs. In addition, MSMEs have difficulty allocating funds in a balanced manner between product development and digital marketing activities so that they often have to choose one priority. Furthermore, MSME actors also admit the lack of technical expertise to analyze digital advertising ROI or use analytical tools such as Google Analytics which has implications for the ineffectiveness of marketing strategies. Therefore, this finding is in line with (Manalu, Rahimi, and Akbar 2023) which emphasizes that limited internal resources are a critical barrier to the adoption of technology and innovation. In addition, this is in line with the findings of (Dubouloz et al. 2023) that limited funds cause 73.3% of MSMEs to sacrifice product development to finance digital advertising while only 26.7% are able to do both (Oyetade, Harmse, and Zuva 2024) . The lack of skilled human resources also leads to dependence on conventional marketing strategies (e.g. WhatsApp), which are less effective in reaching a wider market (Khan and Goyal Garg 2021) . Likewise, 68 % of business actors do not understand how to measure the effectiveness of digital campaigns so that marketing budgets are often wasted (Bernhagen 2024) . Only 12% use data analytics to optimize product innovation. In addition, the adaptive capacity of MSMEs is hampered by structural limitations. Therefore, in practice, policy interventions are needed that focus on sector-specific needs-based technical training and hybrid funding schemes (grants and soft loans) to support the innovation-marketing duality. Collaboration with e-commerce platforms can also be a solution to reduce the burden on internal infrastructure and expertise.

#### **5.1.2 Low Digital Literacy**

Based on the results of the research that has been conducted, it shows that low digital literacy is one of the main obstacles for MSMEs in utilizing digital technology optimally. This study found that MSMEs have difficulty in using analytical tools such as Google Analytics to measure the effectiveness of digital marketing strategies. As a result, many business actors still rely on conventional methods such as WhatsApp for promotion, which are limited in reaching a wider market. This dependence shows a lack of understanding of the potential of digital technology in supporting product innovation and more strategic marketing. This is in line with the findings (Rahmatullah et al. 2020) that low digital literacy hinders MSMEs from accessing a wider market. Only a small number of MSMEs are able to utilize technology optimally while the majority still use traditional methods. In addition, digital literacy has a significant contribution to the use of e-commerce by MSMEs.

### **5.2 Opportunities & Strategies**

#### **5.2.1 Data as a Catalyst for Innovation**

Based on the results of the research that has been conducted, it shows that the use of customer data as a catalyst for innovation has become an important strategy for MSMEs to increase product relevance in the market. This study found that MSMEs use customer comments from digital platforms, such as social media and marketplaces, to make product improvements. This shows that digital interactions not only increase customer engagement

but also accelerate the innovation cycle. This is in line with the findings (Carrasco-Carvajal, Castillo-Vergara, and García-Pérez-de-Lema 2023) that open innovation practices including the utilization of information from customers, have a significant relationship with the innovation results of MSMEs. This finding confirms that customer engagement through digital channels can provide valuable market insights to create products that better suit consumer needs. In addition, social media not only functions as a marketing tool but also as a source of strategic information. Practically, MSMEs need to utilize customer data as a strategic resource to increase product competitiveness.

### **5.2.2 Market Expansion via Digital**

Based on the results of the research that has been conducted, it shows that the use of digital platforms for market expansion has become a crucial strategy for MSMEs in increasing the reach and accessibility of their products. This study found that 70% of MSMEs have succeeded in expanding their markets through e-commerce and social media, which allows them to reach consumers outside the local area. By utilizing platforms such as Shopee and Instagram, MSMEs can reduce operational costs and significantly increase product visibility. This is in line with the findings (Expósito, Fernández-Serrano, and Liñán 2019; Sharabati et al. 2024) that implementation of digital marketing strategies including SEO and social media marketing, contributes to increased sales for MSMEs. This shows that digitalization not only expands market reach but also increases customer interaction, which in turn increases brand loyalty.

## **CONCLUSION AND SUGGESTIONS**

The conclusion of this study is that the integration of product innovation and digital marketing is a crucial strategy for MSMEs in facing increasingly competitive market challenges. Limited resources and low digital literacy are significant obstacles, but the use of customer data as a catalyst for innovation and market expansion through digital platforms offers great opportunities for growth. Therefore, the advice that can be given is that MSMEs need to improve digital literacy through training tailored to specific needs and utilize analytical tools to optimize marketing strategies. In addition, collaboration with the government and e-commerce platforms is essential to provide technical support and access to the necessary resources. With these steps, MSMEs can be more effective in utilizing the potential of digitalization to achieve sustainability and higher competitiveness in the global market.

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