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Innovative Strategies for SMEs in East Java: Boosting Competitiveness Through Digital Marketing and E-Commerce

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Abstract. *This study aims to analyze innovative strategies that can be implemented by Micro, Small, and Medium Enterprises (MSMEs) in East Java to improve competitiveness through digital marketing and e-commerce. This study uses a descriptive qualitative approach with a library research method by reviewing various scientific literature, government reports, and previous studies related to MSME innovation and digital transformation. The results of the study indicate that digital marketing and e-commerce innovation can increase market reach, operational efficiency, product differentiation, and MSME sales. However, the implementation of innovation still faces several challenges such as low digital literacy, limited capital, limited technology, and lack of system integration. Therefore, innovative strategies are needed, including integrated digital marketing, marketplace optimization, social commerce, digital payment systems, logistics integration, digital branding strengthening, and digital literacy training. In addition, collaboration between MSMEs, government, universities, communities, and digital platforms is an important factor in accelerating MSME digital transformation. This study produces recommendations for an innovative strategy model based on digital marketing and e-commerce to improve the competitiveness and sustainability of MSMEs in East Java.*

Keywords*: MSMEs; innovation; digital marketing; e-commerce.*

1. INTRODUCTION

MSMEs (Micro, Small, and Medium Enterprises) play a strategic role in Indonesia's economic development, including in East Java Province, which is one of the largest economic hubs on the island of Java. According to data from the East Java Cooperative and SME Agency, the SME sector contributes significantly to job creation, poverty alleviation, and regional economic growth. However, amid technological advancements, rapidly changing market trends, and increasing competition from both local and global products, SMEs are required to adapt and transform (Ainin et al., 2015; Yacob et al., 2021).

Consumer behavior shifts following the pandemic, increased use of digital platforms, and a shift in preferences toward higher-quality, hygienic, and value-added products have made innovation no longer an option but a necessity (Welas et al., 2024). SMEs that fail to innovate risk stagnation or even losing market share. Conversely, SMEs that are able to implement innovation strategies whether in products, operational processes, digital marketing, or business models tend to have a greater chance of growing and surviving (Gao et al., 2023).

However, the implementation of innovative strategies through digital marketing and e-commerce among MSMEs in East Java has not always been smooth. Various constraints, such as limited capital, low digital literacy, limited human resources, and a lack of access to technology and mentoring, remain major obstacles in the process of MSME digitalization (Gao et al., 2023). On the other hand, significant opportunities are emerging through the

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development of the digital ecosystem, mentoring programs from local governments, support from universities, and increasing cross-sectoral collaboration (hexa-helix), which can assist SMEs in adopting digital marketing and e-commerce. Digitalization has proven capable of significantly expanding market reach and improving the business performance of SMEs (Setyawati et al., 2023). Therefore, understanding innovative strategies based on digital marketing and e-commerce that align with the local context of East Java is a crucial step in enhancing competitiveness and accelerating the transformation of SMEs in the digital economy era.

This article aims to analyze innovative strategies that can be implemented by MSMEs in East Java, focusing on the use of digital marketing and e-commerce as tools to enhance business competitiveness. Additionally, this article highlights how digitalization and multi-stakeholder collaboration can strengthen the capacity of SMEs to navigate increasingly competitive market conditions. By employing a literature review approach, this article aims to provide a comprehensive overview and practical recommendations for SME operators, policymakers, and business advisors in developing effective and sustainable digital marketing and e-commerce strategies.

2. LITERATURE REVIEW

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in enhancing economic competitiveness, particularly in developing countries. The competitiveness of MSMEs is determined not only by the scale of the business but also by their ability to manage resources, adapt to environmental changes, and create added value through innovation (Ayyagari et al., 2007). In the context of global competition, MSMEs are required to possess sustainable competitive advantages to survive and thrive amid increasingly competitive market dynamics.

Digital marketing is a form of marketing transformation that leverages digital technology to reach consumers more broadly and effectively. Digital marketing encompasses various channels such as social media, websites, marketplaces, and other digital platforms (Chaffey & Ellis-Chadwick, 2019). The use of digital marketing enables SMEs to increase product visibility, expand market reach, and build more interactive relationships with consumers. Research shows that the implementation of digital marketing strategies has a positive impact on the marketing performance of SMEs, particularly in increasing sales and customer loyalty (Setyawati et al., 2023). Tiago & Veríssimo (2014)

digital marketing also enables SME operators to utilize real-time data and analytics to understand consumer behavior and develop more targeted marketing strategies.

E-commerce is a form of digitalization that enables business transactions to be conducted online without geographical limitations. The adoption of e-commerce offers various benefits for SMEs, such as improved operational efficiency, easier market access, and enhanced business competitiveness (Yacob et al., 2021). Furthermore, according Gail et al., (2025) integrating e-commerce with digital marketing strategies can create a more effective and efficient business ecosystem. SMEs that adopt e-commerce tend to perform better and are more adaptable to market changes compared to those still relying on conventional methods.

The development of SMEs cannot be achieved individually but requires collaboration among various stakeholders. The hexa-helix model involves six key actors: the government, academia, the business sector, the community, the media, and digital platforms. This collaboration plays a role in accelerating the adoption of innovation and digital transformation among SMEs (Carayannis & Campbell, 2009; Etzkowitz & Leydesdorff, 2000). Government support through policies and mentoring programs, as well as the role of universities in knowledge and technology transfer, are key factors in enhancing the capacity of SMEs. Additionally, the involvement of digital platforms and communities helps SMEs access broader markets and improve digital literacy (Tuthaes et al., 2024).

3. RESEARCH METHOD

This study employs a qualitative-descriptive approach with the aim of providing an in-depth understanding of innovative strategies that are relevant and applicable to MSMEs in East Java. This approach was chosen because it is suitable for examining complex socio-economic phenomena, particularly those related to innovation processes that cannot always be measured quantitatively. The research focuses on how MSMEs adapt, develop innovations, and optimize resources to maintain competitiveness amid changes in the business environment. This study employs a library research design combined with an analysis of the local context. Data sources were obtained from various scientific literature, including both national and international journals, as well as reports from official institutions such as the Central Statistics Agency (BPS), the East Java Cooperative and SME Agency, the Ministry of Cooperatives and SMEs, Bank Indonesia, and various mentoring programs conducted by universities. This approach allows the researcher to synthesize relevant theories and empirical findings pertaining to the conditions of SMEs in East Java.

The data used in this study consists of secondary data, which falls into three main categories: academic secondary data in the form of journals discussing innovation, entrepreneurship, MSMEs, and business strategies; institutional secondary data in the form of annual reports on East Java MSMEs, government program documents, economic statistics, and surveys related to MSME digitalization; and data from documentary studies, including previous research reports, MSME publications, and evaluation results of mentoring programs. Data sources were selected using purposive sampling, which involves choosing relevant, credible, and high-quality sources to produce a comprehensive and accurate picture. Data analysis was conducted through three main stages: data reduction, data presentation, and drawing conclusions. During the data reduction phase, the researcher selected the most relevant literature and documents, summarized key findings, and grouped information based on innovation categories such as product, process, marketing, and business model innovations. The next phase was data presentation, which involved compiling a conceptual matrix, innovation models, and patterns of findings from various studies into a structured narrative to facilitate interpretation. The final stage is drawing conclusions, which involves synthesizing various findings to generate innovative strategy recommendations tailored to the characteristics of MSMEs in East Java, by constructing logical and consistent arguments based on existing theories and patterns of findings.

To ensure the validity and reliability of the data, this study employed several techniques, including source triangulation by comparing data from journals, government reports, and previous studies; evaluating the credibility of the literature by prioritizing reputable journals and official government data; and maintaining the consistency of the analysis by using innovation categories that are widely recognized in the literature.

4. RESULT AND DISCUSSION

Innovation in Entrepreneurship

The concept of innovation has long been associated with the development of entrepreneurship (Schumpeter, 1934) emphasized that innovation is at the core of the entrepreneurial process, which includes the creation of new products, new production methods, the opening of new markets, the use of new resources, and the formation of new organizations. In a modern context, innovation is understood as a continuous process that emphasizes not only creativity but also the ability to experiment, learn, and adapt to change (Tidd & Bessant, 2018). Furthermore, Drucker (1985) asserts that innovation is the primary tool for entrepreneurs to create new value and opportunities. Innovation does not always have to be a major

breakthrough (breakthrough innovation); rather, it can take the form of incremental innovation capable of significantly improving efficiency and quality.

Innovation in SMEs in Developing Countries

In the context of developing countries, innovation is often constrained by limited resources, making the frugal innovation approach particularly relevant Prahalad & Hart (2002) explain that frugal innovation emphasizes solutions that are inexpensive, simple, and easily adopted by entrepreneurs with limited capital and technology.

Other studies indicate that SMEs tend to innovate informally and based on experience, rather than through formal research (Naudé, 2010). Therefore, mentoring, training, and partnerships are critical factors in strengthening SMEs' innovation capacity. The Ministry of Cooperatives and SMEs and various institutions also emphasize the importance of business incubation processes to enhance innovation readiness within the SME sector.

Digitalization as a Driver of Innovation

The development of digital technology has become a key catalyst for innovation among SMEs. Digitalization enables SMEs to improve their marketing, distribution, and operational management more efficiently. According to Kotler et al., (2021) digital marketing provides opportunities for small businesses to increase their visibility, reach a wider market, and compete more effectively. Research (Rachmawati, 2024) indicates that the adoption of technologies such as social media, marketplaces, financial apps, and digital record-keeping systems contributes to increased sales for SMEs in Indonesia. Furthermore, digitalization helps SMEs adapt to post-pandemic shifts in consumer behavior, as consumers increasingly rely on digital transactions.

Characteristics and Challenges of MSMEs in East Java

SMEs in East Java have unique characteristics, with a variety of key sectors such as food and beverages, handicrafts, batik, processed agricultural products, and the creative industries. The SME ecosystem in East Java is also supported by numerous business communities, training institutions, and universities that actively provide guidance. However, several challenges identified by the Central Statistics Agency (BPS) and the East Java Cooperative and SME Agency (Dinkop Jatim) include:

a. Low digital literacy
b. Limited access to financing,
c. Lack of product diversification,
d. Low quality standards and certification, and
e. Limited marketing networks.

These challenges make innovation a crucial aspect that needs to be strengthened in the development of MSMEs. However, innovation efforts still tend to be suboptimal and unfocused, as evidenced by the low adoption of technology and the insufficient role of innovation in enhancing business competitiveness (Febriani & Nasution, 2025).

Theoretical Framework for Innovation in East Java's MSMEs

Based on the existing literature, MSME innovation can be analyzed using four main dimensions:

a. Digital Marketing Innovation: Digital-based strategies that expand market reach.
b. E-Commerce Innovation: This includes the use of marketplaces, the development of independent online stores, and integration with social media (social commerce) to expand market reach and improve consumer access.

This framework was selected because it aligns with the needs of East Java's SMEs, which are currently in a transitional phase toward the digitalization and modernization of business processes.

Digital Marketing Innovation

Digital marketing is the easiest strategy to adopt. SMEs can leverage social media, short-form video content, collaborations with local influencers, and marketplace optimization to expand their market reach.

Table 1. Barriers to Innovation in SMEs Based on Business Scale

MSME Scale	Main Challenges	Causes	Impact
Micro	Low digital literacy	Limited training	Difficulty entering digital markets
Small	Limited access to financing	Administrative requirement	Hindered process innovation
Medium	Lack of product diversification	Focus on local markets	Stagnant competitiveness

Source: Survey data on SMEs in East Java, compiled by the author (2026)

Based on Table 1, it is evident that the barriers to innovation among MSMEs in East Java vary across business scales. Micro MSMEs tend to face the primary challenge of low digital literacy, which results in difficulties accessing digital markets. Meanwhile, small MSMEs are more constrained by financing issues that hinder the development of business process innovations. At the medium scale, the challenges stem from a lack of product diversification, leading to stagnant competitiveness. These findings indicate that innovation strategies need to

be tailored to the characteristics and capacities of each business scale to ensure more effective implementation.

E-Commerce Innovation

E-commerce innovation is a digital strategy that enables SMEs to expand their markets, improve operational efficiency, and strengthen their competitive edge. SMEs can leverage marketplaces, standalone online stores, digital payment systems, system integration, and customer data to enhance service quality and boost sales. E-commerce innovation also enables SMEs to automate transactions, manage inventory, and analyze consumer behavior more effectively. However, the adoption of e-commerce by SMEs still faces various barriers such as technological limitations, adoption costs, digital literacy, and trust in online systems. Therefore, e-commerce innovation strategies need to be tailored to the scale of the business so that their implementation can run optimally and sustainably.

Table 2. Barriers to E-Commerce Innovation Among MSMEs by Business Size

MSME Scale	Main Challenges	Causes	Impact
Micro	Lack of understanding of e-commerce	Low digital literacy	Inability to enter marketplaces
Small	E-commerce implementation costs	Limited capital	Slow adoption of e-commerce
Medium	System & logistics integration	Systems not yet integrated	Efficiency not yet optimized
Mid-to-High Range	Price competition on marketplaces	High competition	Declining profit margins

Source: Survey data on SMEs in East Java, compiled by the author (2026)

Table 2 shows that barriers to e-commerce innovation also vary depending on the stage of development of SMEs. At the micro level, limited understanding of e-commerce is the primary obstacle hindering participation in marketplaces. Small SMEs begin to face implementation cost challenges related to limited capital. Meanwhile, medium-sized SMEs face the complexity of system and logistics integration, which affects operational efficiency. Even at a higher scale, price competition in marketplaces becomes a strategic challenge that can squeeze profit margins. This underscores that digital transformation through e-commerce requires not only technological readiness but also managerial readiness and a well-developed business strategy.

Table 3. Digital Marketing and E-Commerce Innovations

Type of Innovation	Strategy	Impact
Digital Marketing Innovation	Social media, content, influencers	Increased market reach
E-Commerce Innovation	Marketplaces, online stores, digital payments	Increased sales

Source: Survey data on SMEs in East Java, compiled by the author (2026)

Table 3 illustrates that digital marketing and e-commerce innovations make a significant contribution to improving the performance of SMEs. Digital marketing innovations play a role in expanding market reach through the use of social media, creative content, and collaborations with influencers. Meanwhile, e-commerce innovations have a direct impact on sales growth through the use of marketplaces, online stores, and digital payment systems. These two types of innovation complement each other in building a more adaptive and competitive digital ecosystem for SMEs

Table 4. Recommendations for Innovative Strategies for MSMEs in East Java

Strategy	Focus Areas	Rationale	Key Stakeholders
Integrated Digital Marketing	Social media	Increase visibility and brand awareness	MSMEs, communities, digital consultants
Marketplace Optimization	Store management, product photos, product descriptions	Increase sales and market access	MSMEs, marketplaces, government
Social E-commerce	Live shopping, influencers, affiliates	Increase engagement and consumer trust	MSMEs, influencers, communities
Digital Payment Systems	E-wallets, QRIS, payment gateways	Simplify transactions and improve customer convenience	MSMEs, banks, fintech
Digital Logistics Integration	Tracking, fulfillment, dropshipping	Improve distribution efficiency and customer satisfaction	MSMEs, logistics companies
Digital Branding Strengthening	Visual design, storytelling, content	Enhance differentiation and competitive advantage	MSMEs, designers, universities
Digital Literacy Training	E-commerce and digital marketing training	Improve technology adoption capabilities	Government, universities, communities
Data and Analytics Utilization	Sales data and consumer behavior	Support business decision-making	MSMEs, digital platforms

Digital Partnerships	Collaboration with platforms and influencers	Expand market reach and business networks	MSMEs, platforms, communities
Independent Online Store Development	Website and CRM	Increase market control and customer loyalty	Medium-sized MSMEs, developers

Source: Strategic analysis data of MSMEs in East Java, compiled by the author (2026).

Based on Table 4, the recommended innovative strategies demonstrate a comprehensive and integrated approach to supporting the digital transformation of MSMEs in East Java. Each strategy not only focuses on technological aspects but also encompasses human resource capacity building, the development of a digital ecosystem, and collaboration among stakeholders. This approach underscores the importance of synergy between SMEs, the government, digital platforms, and supporting institutions in fostering sustainable innovation. With the proper implementation of these strategies, SMEs will not only be able to enhance their competitiveness but also strengthen their business resilience amid the ever-evolving market dynamics.

5. CONCLUSION AND RECOMMENDATIONS

Innovative strategies are a strategic necessity for MSMEs in East Java to survive, grow, and compete in an increasingly dynamic and competitive business environment. The study's findings indicate that digital marketing innovations and e-commerce innovations not only enhance the adaptability of MSMEs but also strengthen the value proposition offered to consumers. Practical, relevant, and affordable forms of innovation have been proven to have a direct impact on improving operational efficiency, product differentiation, market expansion, and increased sales.

Furthermore, the constraints of capital, technology, and human resourceswhich remain the primary challenges for SMEs in East Jawa can be addressed through collaborative strategies. Synergy between SMEs and local governments, universities, supporting institutions, industry players, and digital platforms is a key factor in accelerating innovation adoption. Cross-stakeholder collaboration through a quadruple helix approach helps create a more inclusive and sustainable innovation ecosystem.

Thus, it can be concluded that innovative strategies are not only a tool for enhancing competitiveness but also the foundation for long-term business sustainability. To reinforce this impact, policy support is needed that focuses on enhancing the innovation capacity of MSMEs,

expanding digital access, and providing collaborative spaces that enable the creation of relevant, sustainable, and locally-driven innovations in East Java.

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