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MSME Product Innovation as a Competitiveness Strategy in Local and Global Markets

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16

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7

Abstrak: Micro, Small, and Medium Enterprises (MSMEs) play an important role in the Indonesian economy with significant contributions to Gross Domestic Product (GDP) and employment. However, in facing the challenges of globalization and increasingly fierce competition, MSMEs are required to innovate to remain relevant and competitive. Innovation is key to improving product competitiveness by adopting digital technology, integrating traditional elements with modern designs, and utilizing e-commerce platforms and social media. Trend phenomena such as increasing interest in local products with a modern touch, environmentally friendly designs, and unique narratives in marketing are increasingly encouraging MSMEs to adapt quickly. This research uses a descriptive qualitative approach to understand the innovation strategies of MSMEs in Yogyakarta, involving interviews, observation, and documentation. The results show that MSMEs that are able to combine traditional elements with modern innovations can expand their markets internationally. Collaboration with external parties such as startups and business incubators also plays an important role in enriching product quality and expanding market reach. Thus, continuous innovation and support from various parties are the main drivers for MSMEs to continue to grow in a competitive global market

Keywords : Competitiveness; Product Innovation; MSMEs





INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the economy, both locally and globally. In Indonesia, MSMEs contribute significantly to Gross Domestic Product (GDP) and absorb most of the workforce (Hamza & Agustien, 2019). However, in facing the challenges of the globalization era and increasingly fierce market competition, MSMEs are required to continue to innovate in order to remain relevant and competitive. Innovation is the key to dealing with dynamic market changes and to improve product competitiveness (Amzul et al., 2024). This phenomenon is evident in the various trends emerging in local and global markets, which encourage MSMEs to adapt quickly and create added value through various forms of innovation. In addition, digital technology also plays an important role in supporting the innovation process, such as utilizing e-commerce platforms and social media to expand markets. Thus, MSMEs that are able to innovate sustainably have a better chance of surviving and thriving in an increasingly complex global market.

The global market's demand for products that reflect local cultural identity provides both a challenge and a great opportunity for MSMEs to expand their market reach. The consumption trend of healthy and natural products is also an important driver of innovation, where consumers are increasingly looking for natural products that are safe and environmentally friendly. According to research by Nurhayati et al (2024), this increased demand for innovative products based on local culture encourages MSMEs to adapt through the integration of technology in their production processes.

Thus, MSMEs that are able to combine traditional elements with modern innovations can meet the increasingly diverse and increasing needs of consumers. In addition, the use of digital platforms in marketing products also helps MSMEs expand their market reach to the international arena, as explained by research by Aini et al (2024).

On the other hand, design innovation is one of the crucial aspects in building product appeal. Global awareness of environmental issues encourages MSMEs to develop environmentally friendly packaging, such as the use of recycled or biodegradable materials. In addition, the global trend towards unique and aesthetic designs provides opportunities for MSMEs to incorporate traditional art elements, such as batik motifs or regional carvings, into their products. This phenomenon not only increases the aesthetic value of the product but also helps introduce local culture to the international market. According to research by Arifin et al (2024), design innovations that integrate local cultural elements can increase product competitiveness by up to 35%. In addition, the use of sustainable design can strengthen the brand image as a company that cares about the environment. The study by Yusepa et al (2024) also shows that a combination of traditional and modern designs can attract consumers, especially from the younger generation who are more sensitive to sustainability issues. Thus, MSMEs that are able to adopt unique and sustainable design innovations have great potential to penetrate the global market by offering products that are not only aesthetically valuable but also environmentally friendly.





Another important phenomenon is the increasing influence of digital marketing on consumer purchasing decisions. With the increasing number of transactions on e-commerce platforms, MSMEs have the opportunity to reach a wider market through digital channels. In addition, social media and storytelling-based marketing strategies allow MSMEs to build strong brands and create emotional connections with consumers (Prabowo, 2024). Products with unique narratives, such as stories about the origin of raw materials or the manufacturing process, are increasingly in demand by global consumers who value authenticity and sustainability.

Technological advancements and changes in global consumption patterns provide both pressure and opportunities for MSMEs to transform. Many MSMEs have not been able to utilize technology to the fullest, thus losing out to large, established companies. In this context, research on MSME innovation is very important to provide insight into effective adaptation strategies. By identifying relevant forms of innovation, MSMEs can improve their competitiveness and contribute more to the national economy (Syahbudi, 2021). In addition, this research also aims to inspire MSMEs to change their traditional ways of working to become more modern and structured.

Not only relevant for MSMEs themselves, the results of this research are also useful for other stakeholders, such as the government and financial institutions. The government can use the research results to design policies that support MSME innovation, such as tax incentives or technology-based training. Financial institutions can also understand the more specific needs of MSMEs, so that they can

provide more suitable access to financing. Thus, collaboration between MSMEs, government, and the private sector will become more targeted and effective in creating a highly competitive business ecosystem.

In addition, this research also implicitly highlights the economic and social benefits that result from MSME innovation. When MSMEs are able to compete in local and global markets, the impact not only increases the income of entrepreneurs, but also creates significant new jobs. This helps reduce unemployment, improve people's lives, and promote inclusive economic growth. Therefore, MSME innovation is not only a matter of business sustainability, but also part of broader national development efforts. Thus, this research has become an urgency to answer this strategic need.

METHOD

This research uses a descriptive qualitative approach to understand the innovation strategies of MSMEs in improving competitiveness in local and global markets. The research was conducted in Yogyakarta, with the research subjects consisting of 15 MSME owners, 10 employees, and 10 consumers selected by purposive sampling to ensure data relevance. Data were collected through in-depth interviews, participatory observation, and documentation. Interviews explored information on innovation, challenges, and its impact on competitiveness. Observations were made to observe the production, design, and marketing processes, while documentation included sales reports, product photos, and promotional materials. Data analysis was conducted thematically, including data reduction to categorize main themes, data



presentation in the form of narratives or tables, and conclusion drawing that resulted in strategic recommendations. Data credibility was guaranteed through source triangulation, comparing data from owners, employees and consumers, and method triangulation with a combination of interviews, observation and documentation. This approach is expected to provide comprehensive insights for MSMEs, government, and other stakeholders..

RESULTS AND DISCUSSION

1. Product and Design Innovation

Product and design innovation is key for MSMEs to improve their competitiveness in the global market. The trend of using innovative designs that combine traditional elements with modern technology, as seen in interviews with several MSME players, shows that these innovations can enrich product aesthetics while expanding market reach. One of the interviewees, Mr. E, a handicraft business owner in Yogyakarta, stated that designs that combine batik motifs with digital technology can increase product appeal by up to 30% compared to similar products without the touch of technology.

"We integrate traditional designs such as batik with digital technology such as augmented reality, and the results are very significant in increasing customer interest, especially in the international market," said Mr. Eko.

In addition, the use of technology such as 3D printing and augmented reality provides significant added value in creating unique and competitive products in the international market. Innovation does not only stop at the design aspect, but also involves improving product quality. Demand for local products with an

innovative touch continues to increase, especially those that focus on environmental sustainability. An interview with Ms. R, a recycled product business owner, revealed that customers are increasingly selective in choosing products that are not only innovative but also environmentally friendly..

"We see that customers are more interested in products such as bags made from recycled materials or furniture that uses low-carbon materials. This kind of innovation helps us compete in the global market," explained Mrs. Rini.

In the context of scientific discussions, MSME innovations that integrate traditional designs with modern technology have become a major focus in the literature on creativity and product competitiveness. According to a study by Candrayani & Geriadi (2024), the combination of local cultural elements with the latest technology can expand markets and increase the added value of products. In addition, a study by Ardiansyah (2023) mentioned that the use of technology such as 3D printing in the production process can increase product efficiency and innovation, making it easier for products to compete in the global market.

Collaboration with startups and business incubators is also a significant phenomenon in encouraging MSME innovation. An interview with Mr. A, the founder of a technology startup that supports MSMEs in innovative product development, shows that this synergy is very helpful in optimizing the product development process..

"We use artificial intelligence (AI) for market analysis and more personalized product development according to consumer needs. This





collaboration allows MSMEs to have a greater competitive advantage," said Mr. Ari.

Innovation in MSME product design and development plays an important role in improving competitiveness and opening up opportunities for expansion into global markets. However, various challenges still need to be overcome, such as limited resources and limited access to advanced technology. Collaboration with external parties such as startups, business incubators, and the utilization of innovative technology are strategic steps to overcome these obstacles. With effective collaboration, MSMEs can utilize the latest technology to improve production efficiency and expand market reach. In addition, the utilization of technology also allows MSMEs to maintain product quality with higher standards, so that they can compete at the global level. Studies show that MSMEs that innovate with creative and sustainable designs have a greater chance of growing and maintaining their existence in an increasingly competitive market. Challenges such as adapting to fast-changing market trends can be overcome with strong cooperation between MSMEs and the technology ecosystem. This way, MSMEs can continue to innovate, adapt and grow in the face of global market dynamics.

2. Digitalization and Technology Adaptation

Digitalization and technology adaptation are important elements in the development of MSMEs to face the challenges of an increasingly competitive market. MSMEs are increasingly adopting digital technology to market their products online through e-commerce platforms and social media. Based on interviews with

several MSME players, the use of this technology has a positive impact on increasing market access and operational efficiency. One of the interviewees, Ms. S, a handicraft online shop owner, stated that by utilizing marketplaces such as Tokopedia and Shopee, she was able to expand her market reach to overseas.

"By using the e-commerce platform, our products are easier to find by customers from various countries, and the transaction process becomes simpler," said Mrs. S

The use of local apps and community-based marketplaces has also been proven to help MSMEs market their products in an innovative and efficient way. An interview with Mr. RZ, the owner of a local application that supports MSMEs in marketing their products, revealed that this solution is very effective in strengthening relationships with consumers and making it easier to manage orders.

"Applications like this allow MSMEs to centrally manage inventory, payment processes, and communication with customers, so we focus more on product development," explained Mr. RZ

In addition, the utilization of international certifications is also an important strategy in increasing the competitiveness of MSME products in the global market. Certifications such as ISO, HACCP, and eco-friendly certification give international consumers additional confidence in the quality and uniqueness of MSME products (Nurdelila et.al., 2022). According to an interview with Ms. D, an organic product business owner, these international certifications are very helpful





in expanding the market to developed countries that have high quality standards.

"Certification like this shows our commitment to product quality and safety, so that our products are more accepted in the global market," said Mrs. D

Digitalization and technology adaptation have become key requirements for MSMEs to compete in the global market. Technology adoption helps improve operational efficiency by 30%, as well as increase product visibility by 40%. In addition, the use of local apps and community marketplaces strengthens service personalization and closer interaction with customers. Research by Mangkuanom et al (2024) states that technology contributes to the expansion of marketing networks by improving efficiency, expanding market reach, and accelerating the dissemination of product information to new customers. In line with this, Sutanto et al (2024) revealed that community-based platforms create stronger relationships between MSMEs and customers. Technology allows MSMEs to optimize production processes and understand consumer needs better. However, challenges such as limited access to technological infrastructure still need to be overcome. With digitalization, MSMEs can open up expansion opportunities that were previously difficult to reach.

In terms of international certification, a study by Gandhi et al (2021) states that this certification helps MSMEs in standardizing products, strengthening brand credibility, and opening up opportunities for expansion into competitive global markets. Collaboration between MSMEs and certification bodies, both local and international, further enhances product

competitiveness in a market that demands high quality. Thus, digitalization and technological adaptation are the main pillars that strengthen the position of MSMEs in facing global competition. However, challenges such as high technology investment costs and limited resources are still the main challenges that need to be managed strategically so that MSMEs can continue to develop and innovate.

3. Kolaborasi dan Dukungan Eksternal

External collaboration and support play a crucial role in MSME development and innovation to strengthen their competitiveness in an increasingly competitive market. MSMEs are now utilizing various forms of collaboration with startups, business incubators, and technology ecosystems to develop products that are innovative and relevant to modern market needs. An interview with Mr. AN, founder of a startup that focuses on technology solutions for MSMEs, shows that these collaborations provide significant access to the latest technology and a wider business network..

"Through collaboration with startups, we not only develop more sophisticated products, but also gain insight into global trends that can be applied in local products," said Mr. AN

In addition, the role of business incubators in supporting MSMEs cannot be ignored. Incubators provide holistic assistance that includes managerial training, access to seed funding, and product development facilitation. According to Ms. T, one of the incubator participants, the experience has been very





helpful in strengthening the product base and expanding market reach.

"We received very valuable training in developing an innovation-oriented business strategy, as well as assistance in developing a sustainable business model," said Mrs. T

The government acts as a key partner in encouraging collaboration and digitalization of MSMEs. By providing various incentives and training programs, the government helps MSME players to grow their businesses through more effective technology implementation (Mariam & Ramli, 2023). Collaboration between the government and MSMEs strengthens the business ecosystem, which in turn drives digital economic growth at the local level. Nonetheless, an interview with Mr. F, an MSME entrepreneur in a remote area, revealed challenges that are still faced in the implementation of this program.

"The main obstacle we face is uneven infrastructure, such as limited internet networks and access to advanced technology that is still difficult to obtain in remote areas," said Mr. F.

However, with government support, MSMEs in this area are able to develop more competitive products through the training and mentoring provided.

The role of millennials and Gen Z is also an important factor in driving MSME innovation. These young generations bring fresh ideas that are oriented towards the needs of modern consumers, and develop more adaptive strategies to compete with imported products (Ramdhani & Madani, 2023). Mr. DD, a millennial who is active

in MSME product development, stated that the creativity brought by this generation facilitates the development of products that are not only innovative but can also meet evolving market needs.

"We understand the needs of the dynamic market, so that the products we offer are able to compete with cheaper but less innovative imported products," said Mr. DD.

Collaboration with startups, business incubators, and utilization of technology ecosystems have a significant positive impact on MSME product development. Research results by Laily et al (2024) show that this kind of collaboration can increase the competitiveness of MSMEs by up to 40%, with a focus on sustainable innovation and responsiveness to global market needs. In addition, a study by Azhari et al (2024) revealed that government support in the form of incentives and training also plays a major role in creating an ecosystem that supports the development of more innovative MSMEs.

In the face of increasing competition with imported products, effective collaboration, technological adaptation, and external support are the main keys in optimizing the potential of MSMEs. MSMEs that are able to innovate and synergize with external parties such as startups, incubators, and utilize government support, have a greater chance of developing sustainably in an increasingly dynamic global market.

CONCLUSIONS

Product and design innovation, digitalization, and collaboration with external parties are the main keys for MSMEs in facing the challenges of a competitive global market. Through the integration of traditional elements





with modern technology, the use of digital technology, and strong collaboration support, MSMEs are able to improve their competitiveness. Collaboration with startups, business incubators, and utilization of innovative technologies have been proven to expand market reach and enrich product quality. However, challenges such as limited access to technology infrastructure and resources still need to be strategically managed to ensure that MSMEs can continue to thrive and adapt to the changing dynamics of the global market. With continuous innovation and support from various parties, MSMEs have great potential to remain relevant and successful in global competition

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