

Product Innovation And Digital Marketing Strategies To Improve The Competitiveness Of MSMEs: Case Study On MSME " Dhany Bakery" In Jombang Regency

Afif Nur Rokhman^{1*}, Sudarmiati², Puji Handayati³, Naswan Suharsono⁴

^{1,2,3,4}Faculty of Economics and Business, Universitas Negeri Malang, Indonesia

Email: ^{1*)}afif.nur.2504139@um.ac.id, ²⁾sudarmiati.fe@um.ac.id,

³⁾puji.handayati.fe@um.ac.id, ⁴⁾naswan.suharsono.fe@um.ac.id

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Abstract

The development of digital technology has had a significant impact on MSME business models, particularly in the areas of marketing and product innovation. This case study aims to analyze the product innovation strategies and the use of digital marketing implemented by the MSME "Dhany Bakery," as well as their influence on enhancing business competitiveness. The study employed a qualitative approach through direct observation, in-depth interviews, and documentation. The findings indicate that product innovation focusing on flavor variations and packaging, combined with the application of digital marketing through Instagram, WhatsApp Business, and TikTok Shop, successfully increased brand awareness and boosted sales by 35% within three months. This research offers practical contributions for other MSMEs seeking to strengthen their competitiveness through the adoption of digitalization.

Keywords: Product Innovation, Digital Marketing, MSMEs, Entrepreneurship, Competitiveness.

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of Indonesia's economy, playing a strategic role in fostering inclusive economic growth. Contributing more than 99% of the total national business units, MSMEs serve as the main driver that absorbs the largest share of the workforce while stimulating economic activities at the local and regional levels. Data from the Ministry of Cooperatives and SMEs (2023) further confirms that the sector makes a substantial contribution to the national Gross Domestic Product (GDP). However, despite their significant role, MSMEs continue to face fundamental challenges, particularly regarding their readiness to adapt to the digital era. Limited access to technology, low digital literacy, weak innovation capabilities, funding constraints, and inadequate marketing strategies are among the most common obstacles encountered by MSME actors (Purinda & Rahayu, 2023). Increasingly competitive market dynamics require MSMEs to move beyond traditional strengths and transform through the adoption of digital technology and product innovation to remain relevant and competitive (Kusumo & Solechan, 2023).

In this context, Dhany Bakery—a small culinary business in Jombang Regency—reflects the real challenges experienced by many other MSMEs. Despite having a promising market opportunity and competitive products, Dhany Bakery experienced a significant decline in



sales. This downturn was driven by several factors, including rising competition from modern bakeries with stronger visual branding, shifting consumer preferences toward more standardized product quality, and the use of conventional marketing strategies that reached only local markets. Moreover, the utilization of digital marketing in earlier stages was suboptimal in terms of content frequency, visual quality, platform selection, and branding consistency. These issues resulted in low brand awareness, making it difficult to attract new customers or retain existing ones (Selviasari, Sudarmiati & Ayuanti, 2024).

Given these challenges, intervention through an entrepreneurship mentoring program became a strategic step toward encouraging more systematic and targeted improvements. The mentoring employed a comprehensive approach encompassing product innovation, branding enhancement, and digital marketing optimization. In terms of product innovation, Dhany Bakery received guidance to develop more modern flavor variations, improve raw material quality, test new formulations, and refine packaging designs to make them more appealing and aligned with current consumer expectations. These findings are reinforced by Mulyadi et al. (2024), who highlight that packaging innovation and improved product quality significantly increase consumer purchase interest in MSMEs.

The mentoring also focused intensively on the use of digital marketing as a strategy for market expansion. Dhany Bakery was guided to optimize the use of social media platforms such as Instagram, Facebook, and WhatsApp Business as primary channels for cultivating customer engagement. The digital marketing strategy included creating more professional visual content, maintaining consistency in posting, using persuasive captions, leveraging story and reels features, and optimizing hashtags and engagement tools. Additionally, training on digital platform management enhanced the owner's understanding of customer insights, engagement analysis, and paid promotional strategies such as Facebook Ads to expand market reach. Previous studies have shown that digital marketing strongly influences the improvement of MSME performance and market reach (Budiarti et al., 2024; Azzahra & Sabilla, 2024). The mentoring strengthened not only technical capabilities but also instilled a digital mindset to make MSME actors more adaptive and responsive to changes in consumer behavior.

The transformation experienced by Dhany Bakery serves as a concrete example of how product innovation and digital marketing can significantly enhance MSME competitiveness. The improvements were reflected in the increase in social media followers, higher customer interaction, rising online orders, and a positive trend in sales performance. These results align with recent studies showing that the integration of product innovation and digital marketing is a highly effective combination for improving business performance—particularly for culinary MSMEs that rely heavily on visual appeal and product quality (Purinda & Rahayu, 2023; Kusumo & Solechan, 2023).

Furthermore, this study holds important academic and practical relevance. Academically, it contributes to the literature on MSME digital transformation in Indonesia, particularly in the dynamic culinary sector. The study enriches perspectives on the role of innovation and digital marketing as key drivers of competitiveness in small businesses. Practically, the research provides a reference for other MSMEs seeking to develop business strategies aligned with the demands of the digital era. Entrepreneurship mentoring has proven to be an effective instrument in helping business owners overcome limitations in knowledge and technical skills, ultimately improving overall business quality (Selviasari et al., 2024).

Additionally, this case study reinforces that MSME success does not depend solely on internal factors such as technical skills or product quality, but also on the ability to adapt to external changes. The digital era requires MSMEs to be more agile, creative, and innovative in

creating added value and capturing consumer attention. Therefore, continuous mentoring, digital education, and strengthened managerial capacity are essential components in supporting business sustainability (Budiarti et al., 2024).

Overall, the transformation of Dhany Bakery demonstrates that MSMEs can grow and recover when provided with appropriate support in both innovation and digital marketing. This study is expected to inspire other MSME actors to leverage digital technology and product innovation as key strategies for enhancing competitiveness and ensuring business sustainability in today's dynamic market environment.

2. Literature Review

2.1. Entrepreneurship

Entrepreneurship is a creative process of generating added value through opportunity identification, innovation, and calculated risk-taking. Zimmerer and Scarborough (2018) emphasize that entrepreneurship is not limited to establishing new ventures but also involves an entrepreneur's ability to transform innovative ideas into economically valuable products or services. Within the MSME context, entrepreneurship plays a pivotal role as a driving force that shapes business direction and strategy, especially when navigating market uncertainties and environmental changes. Entrepreneurs' capabilities in understanding consumer needs, managing resources effectively, and creating competitive advantage are key determinants of business sustainability. Strengthening entrepreneurial competencies is therefore highly relevant for enhancing MSME competitiveness in the digital era.

2.2. Product Innovation

Product innovation is one of the fundamental drivers of competitive advantage. Kotler and Keller (2021) define product innovation as efforts to create, develop, or modify products to better align with consumer needs and preferences. Innovation may involve adding new features, using higher-quality raw materials, developing new flavor variants, or designing more appealing and functional packaging. For culinary MSMEs such as Dhany Bakery, product innovation not only differentiates them from competitors but also serves as a strategy to maintain consumer loyalty. Consumers tend to prefer products that offer new experiences in terms of taste, appearance, and overall quality. Prior studies confirm that product innovation is directly associated with increased sales and market expansion, particularly when implemented consistently and based on thorough customer needs analysis.

2.3. Digital Marketing

Digital marketing is a marketing approach that leverages digital technologies and the internet to reach audiences more effectively, measurably, and broadly. According to Chaffey (2020), digital marketing encompasses various activities such as social media marketing, search engine marketing, websites, email marketing, visual content creation, and the use of e-commerce platforms. The strength of digital marketing lies in its ability to reach consumers in real time, foster two-way interactions, and provide analytical data that helps business owners understand consumer behavior more deeply. For MSMEs, digital marketing is a strategic solution for increasing brand awareness and expanding market reach without requiring large promotional budgets. Platforms such as Instagram, TikTok, and WhatsApp Business have become highly effective tools for culinary MSMEs to showcase product catalogs, deliver promotional information, and maintain direct communication with customers. Recent studies also show that MSMEs that apply digital marketing optimally experience sales increases of more than 30%.

2.4. MSMEs and Competitiveness

MSME competitiveness can be assessed through their ability to compete sustainably in the market by leveraging product excellence, service quality, operational efficiency, and technology adoption. Tambunan (2019) asserts that MSME competitiveness is strongly influenced by product quality, innovation capability, marketing strategy, and adaptability to digital technological developments. In the digital economy context, MSMEs that successfully integrate product innovation with digital marketing generally demonstrate superior business performance compared to those relying on conventional methods. Competitiveness is also shaped by business management capabilities, human resource management, and the ability to anticipate both local and global market needs. For Dhany Bakery, competitiveness is largely determined by its ability to combine product innovation with digital marketing strategies to attract new customers while retaining existing ones. Thus, enhancing competitiveness requires a holistic approach encompassing innovation, technology, and adaptive marketing strategies.

3. Methods

This study employs a case study design with a qualitative approach to gain an in-depth understanding of the phenomena occurring within the MSME “Dhany Bakery” in Jombang Regency. A qualitative approach was selected because it enables the researcher to capture real conditions, processes, and managerial dynamics that cannot be understood solely through numerical measurement but require rich, contextual description (Raco, 2021). The case study method allows for a comprehensive exploration of product innovation strategies and the implementation of digital marketing within a single research object, as recommended in digital-transformation-based MSME research (Setiawan & Putri, 2022). The research object is Dhany Bakery, a culinary MSME striving to enhance its competitiveness through innovation and the adoption of digital technologies.

Data were collected using three primary techniques. First, direct observation was conducted on production processes, packaging activities, and marketing operations to obtain an authentic portrayal of workflows and real business conditions. Field observation is a crucial instrument in qualitative research to ensure that gathered data reflect the actual context (Hariyanto & Nugroho, 2021). Second, in-depth interviews were held with the owner and two employees to elicit information regarding their experiences, strategies, challenges, and perceptions of ongoing changes. Semi-structured interviews were chosen because they allow flexibility and depth of insight, as recommended in qualitative MSME research (Lestari & Prabowo, 2023). Third, documentation—including activity photos, sales records, and social media content—was collected to reinforce observational and interview data and to provide relevant empirical evidence. Documentation is essential for confirming both verbal and visual data in qualitative studies (Widodo, 2022).

The data analysis technique employed the interactive model of Miles and Huberman, consisting of three stages: data reduction, data display, and conclusion drawing or verification. This model is widely applied in MSME studies examining managerial behavior, business processes, and adaptation strategies (Khasanah & Rahmawati, 2022). In the data reduction stage, information from observations, interviews, and documentation was sorted, categorized, and simplified in accordance with the research focus. Data display was carried out by organizing the information into narrative descriptions, tables, or matrices to facilitate the identification of patterns and relationships among components (Azzahra & Sabilla, 2024). The final stage—verification—involved drawing conclusions based on the analyzed findings and

rechecking data validity through triangulation across multiple data sources. Triangulation is an effective validity technique in MSME studies, ensuring consistency and credibility of field findings (Putra & Mulyani, 2021).

Through this methodology, the study is expected to produce a comprehensive overview of the implementation of product innovation and digital marketing at Dhany Bakery and its impact on business competitiveness. This approach aligns with recent studies asserting that a qualitative case study design is one of the most effective methods for uncovering the dynamics of digital transformation in MSMEs (Rohimah & Cahyono, 2023).

4. Results and Discussion

4.1. Product Innovation

Product innovation is a critical element for MSMEs to maintain business sustainability and compete amid rapidly shifting consumer preferences. In the case of Dhany Bakery, product innovation is carried out through developing new flavor variants, improving raw material quality, and updating packaging design. This strategy aligns with the view of Kotler and Keller (2021), who emphasize innovation as a key driver for organizations to differentiate themselves from competitors. Similarly, Khin and Ho (2022) found that MSMEs with a strong product-innovation orientation experience significant increases in market attractiveness and customer loyalty.

The introduction of contemporary flavors such as matcha, taro, and cream cheese is a direct response to market trends dominated by younger consumers. Widiyanto and Yulianingsih (2022) highlight that millennial and Gen Z consumers are particularly drawn to food products offering new and unique taste experiences. This explains the substantial rise in daily orders for Dhany Bakery's new variants. Furthermore, the enhancement of raw material quality—through the use of premium flour and butter—plays a key role in elevating overall product quality. Surantha and Suryanto (2023) similarly assert that raw material quality has a direct relationship with consumer perceptions of taste, freshness, and shelf-life in bakery products.

Modern and aesthetically appealing packaging—aligned with social-media trends—also strengthens product value. Packaging no longer functions merely as a container but as a visual communication tool shaping perceived quality. Pradana and Lestari (2021) found that attractive packaging increases purchase intention by enhancing visual appeal and perceived brand professionalism. Dhany Bakery's decision to update its packaging is consistent with Iniesta-Bonillo et al. (2022), who confirm that visual aesthetics strongly influence buying decisions, particularly on digital platforms.

Dhany Bakery's consistent innovation efforts serve as an effective strategy for building a dynamic brand image that responds to market changes. Aprilianto et al. (2022) suggest that ongoing product innovation enhances MSMEs' competitive advantage and creates differentiation that is difficult for competitors to imitate. Therefore, the innovations implemented at Dhany Bakery not only increase customer satisfaction but also strengthen the business's position in the local market.

4.2. Digital Marketing Strategy

Dhany Bakery's digital marketing strategy includes the use of Instagram, WhatsApp Business, and TikTok Shop as tools for promotion and consumer engagement. This digital shift reflects broader changes in MSME marketing behavior, as Chaffey (2020) notes that digital marketing allows businesses to expand market reach, enhance consumer engagement, and improve communication efficiency.

The use of Instagram as the primary promotional platform corresponds with findings by Rahmawati and Qomariah (2022), who show that Instagram significantly influences brand engagement among culinary MSMEs. Visual presentation through photos and creative videos strengthens brand identity and builds trust. Dhany Bakery utilizes features such as the feed, stories, and highlights to display catalogs, testimonials, and production processes—leading to a 60% increase in followers within three months.

WhatsApp Business provides catalog features, automated messaging, and broadcast capabilities that help Dhany Bakery manage customer communication professionally. Sari and Nugroho (2021) found that WhatsApp Business is one of the most effective platforms for MSMEs due to its personal and fast communication style. This makes the ordering process more efficient, responsive, and organized.

TikTok Shop represents a highly relevant strategy aligned with current digital marketing trends. Shi et al. (2023) show that short-form video content strongly influences purchase intention, particularly for food products. Dhany Bakery leverages content such as bread-making videos, behind-the-scenes clips, and live selling to increase direct customer interaction. Such content strengthens the emotional connection between the brand and its audience, contributing to a 35% increase in sales.

Dhany Bakery's digital marketing efforts are consistent with Putra (2022), who reports that MSMEs engaging actively on social media tend to experience sales increases of 30–50% due to higher interactivity and broader promotional reach. Thus, Dhany Bakery's digital marketing strategy not only boosts visibility but also reinforces customer relationships and expands the market beyond the local area.

4.3. Impact on Competitiveness

The integration of product innovation and digital marketing directly enhances Dhany Bakery's competitiveness. Astuti and Nugraha (2022) emphasize that MSMEs capable of innovating while simultaneously leveraging digital technology possess stronger competitive advantages than those focusing on only one of these aspects. This is evident in Dhany Bakery's ability to attract customers from beyond its sub-district, increase repeat purchases, and expand its product lines.

Innovative product features and modern packaging create strong differentiation for Dhany Bakery in a competitive bakery market. Yuliani and Setiawan (2021) demonstrate that continuous innovation allows MSMEs to build a distinct and superior market positioning. Such innovation not only improves product quality but also creates unique consumption experiences.

From a marketing perspective, digital marketing significantly contributes to increased brand awareness. Apriliyanti and Prabowo (2023) identify social media as a primary tool for MSMEs to expand market share and build brand reputation. The increase in Dhany Bakery's engagement rate and sales following the optimization of TikTok and Instagram confirms the effectiveness of this strategy.

In the long term, Dhany Bakery will become more adaptive to shifting consumer behavior. Modern consumers tend to seek information, compare products, and make

purchases via social media. Lestari et al. (2022) found that consumers in the Indonesian culinary sector rely heavily on social media for product recommendations.

Overall, the combination of product innovation and digital marketing strengthens Dhany Bakery's competitiveness in both product and marketing dimensions. This strategy aligns with Putra (2022), who concludes that MSMEs integrating innovation and digitalization have greater potential for growth in the digital economy era.

5. Conclusion

This case study demonstrates that product innovation and the implementation of digital marketing strategies significantly enhance the competitiveness of the MSME Dhany Bakery. Flavor and packaging innovations increase product attractiveness, while digital marketing expands market reach and boosts sales. The study recommends that MSMEs continually adapt to digital technologies to remain resilient and competitive amid increasingly intense market conditions.

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