

PRODUCT INNOVATION STRATEGIES IN INCREASING COMPETITIVENESS MSMEs IN INDONESIAN

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Abstract

This study aims to examine innovation strategies that can be applied by Micro, Small, and Medium Enterprises (MSMEs) in Indonesia in order to increase their competitiveness in the global and domestic markets, in this context, innovation is not only limited to product development, but also includes innovation in processes, marketing, and business models. Innovation is considered the key to facing increasingly fierce competition challenges, especially in the midst of market dynamics that can be applied by MSMEs in Indonesia, such as the use of digital technology, collaboration with other parties, and the development of creative culture in the organization. In addition, adaptation to market changes and increasingly intelligent consumers are also important factors in creating added value for products and services offered by MSMEs. Thus, the right innovation strategy can provide a sustainable competitive advantage for MSMEs in Indonesia, while encouraging national economic growth. This study uses a qualitative approach method with case studies on several MSMEs in Indonesia that have implemented product innovation strategies to increase their competitiveness. The findings of his research show that there is an increase in sales ups and downs experienced, orders from abroad, and a decline in sales since the Covid era hit, this can be a reference for the effectiveness of marketing strategies in competition between business actors. Implementing these strategies can help MSMEs differentiate themselves from the market, increase customer value, and capture new growth opportunities. Although MSMEs have great potential, there are still many difficulties to innovate in terms of products, therefore, this research focuses on the development and implementation of product innovation strategies as an effort to increase the competitiveness of MSMEs in Indonesia.

Keywords: innovation strategy, competitiveness, MSME business actors, business development

Introduction

Innovation has a very broad meaning that can be understood from various perspectives. Discovery has the meaning of a unique dimension which includes the form, formulation, and function of something. Discovery is the process of transforming intellectual thoughts into a new form that can be in the form of products and processes. From the understanding of the invention, a broader understanding of innovation can be drawn. Innovation is the entire process when an invention is transformed into a commercial product that can be sold so that it generates profits. In summary, MSMEs must embrace digital transformation and adopt innovative strategies to increase competitiveness and growth in the digital era. By utilizing e-commerce, digital marketing, human resource development, product innovation, and digital devices, MSMEs can adapt to the ever-changing and evolving digital economy business landscape. Innovation, both in products and processes, is an integral part of the survival and growth of MSMEs. However, these companies often face resource constraints and operational challenges and MSMEs must adopt the right innovation strategy. This strategy includes product innovation, process innovation, marketing innovation, and business model innovation. Implementing these strategies can help MSMEs differentiate themselves from the market, increase customer value, and capture new growth opportunities.

The development of Batik in Tarakan, North Kalimantan has experienced ups and downs in production. Batik artisans began to develop new innovations to increase sales by adding new motifs. More and more people are using the Tarakan motif batik and North Kalimantan motifs, which has an impact on the advancement of batik craftsmen's businesses. D'erte Tarakan batik craftsman, Sony Lolong, the owner of the business, said that the rise of the batik artisan business has been around since 5 years ago with the support of the Tarakan City government and the North Kalimantan Provincial Government. "Since Civil Servants (PNS) are required to use batik uniforms with Tarakan motifs and Kaltara motifs, it certainly has an impact on the progress of batik craftsmen's business". (Sony Lolong 2024). The problem experienced by batik craftsmen is that batik production is often difficult to market widely, especially outside the region. Less effective promotions can reduce sales.

The large opportunity for MSMEs to drive the community's economy and become the basis for most of the community's sources of income to improve welfare is one of the facts that MSMEs have many contributions to the national economy (Ariani & Utomo, 2017). The increasing number of new business ventures in various industrial sectors, both small and large, has resulted in business actors having to prepare to compete both in the Indonesian market and the global market.

Although MSMEs have great potential, there are still many difficulties to innovate in terms of products, therefore, this research focuses on the development and implementation of product innovation strategies as an effort to increase the competitiveness of MSMEs in Indonesia. Factors that affect the innovation strategy of MSME products in the process of developing and implementing innovation. Product innovation often stems from a deep understanding of consumer needs and preferences. Changes in consumer trends, the desire for more efficient or environmentally friendly products, and adjustments to evolving lifestyles can encourage product innovation that is more in line with market demand.

This article is written with the aim of explaining product innovations in increasing the competitiveness of MSMEs in Indonesia. Analyze the factors that affect the implementation of product innovation in MSMEs in Indonesia. And find out the challenges and solutions that MSMEs can face in the implementation of product innovation. For the government to provide policy recommendations to support MSMEs in product innovation. Many MSMEs face difficulties in identifying problems precisely due to limited knowledge of the challenges that exist. By conducting surveys or interviews with MSME owners or managers to explore experiences related to the challenges faced in the product innovation process. With a structured approach and solutions based on a deep understanding of the challenges faced, MSMEs can be more successful in implementing product innovations that can increase their competitiveness.

The concept of MSMEs is a business managed by individuals or groups with small and medium business scales. The definition of MSMEs is often associated with the criteria of the number of workforce, income, and business assets. MSMEs have a very important role in the Indonesian economy, especially in creating jobs and income equity. Product innovation is the process of developing or creating new products that differ from the purpose of meeting unmet market needs or creating added value. Product innovation includes aspects of design, features, packaging, and the use of new technologies. And MSME competitiveness refers to the ability of businesses to survive and thrive in a competitive market. The competitiveness of MSMEs can be increased through improving product quality, operational efficiency, the use of technology, and effective marketing strategies.

Several things that need to be observed in overcoming the problem of increasing innovation in the competitiveness of MSMEs, such as increasing the capabilities and productivity of MSMEs, prioritizing entrepreneurship related to motivation, commitment, and technology in business, and MSMEs do not mean reducing national productivity growth. Innovation activities in order to increase competitiveness can be carried out simply by observing, and modifying this method can provide inspiration for business actors who want to develop their business. Therefore, the ability to create, and solve problems is quite necessary in innovative activities. Thus, it is important to carry out innovation activities to increase the value and superiority of an existing state and condition. Organizational innovation is the ability to develop an idea that represents the capabilities of a company. The ability of the assistance system to help entrepreneurs related to information in increasing innovation. Businesses that are creative and have innovation tend to be more adaptable to changes in the business environment in increasing the competitiveness of MSMEs. And consistently looking for opportunities to innovate in improving products. The innovation strategy component is carried out by meeting the ever-changing needs and preferences of customers and developing new products. This allows innovation to lead the market and reduces the possibility of competitors to innovate. Creative industry is one of the businesses that are in demand by the Indonesian people today refers to the economic sector that comes from the use of creativity, skills, and individual talents with the aim of creating economic prosperity and business opportunities.

Method

This study uses a qualitative approach method with case studies on several MSMEs in Indonesia that have implemented product innovation strategies to increase their competitiveness. The qualitative research method is a Naturalistic research method, the researcher as the main instrument, the results of qualitative research emphasize meaning rather than generalization. Data research was carried out through the results of literature studies. In selecting literature, qualifications are applied to ensure that only literature has sufficient quality to be the basis for analysis. The hope of the results of this research is to provide an understanding of strategy analysis that can influence MSME innovation in increasing the competitiveness of local products, and can be the basis for the development of concepts and policies. Trade that continues

to grow and become more sophisticated results in increasingly varied and fierce market competition. Every business, especially those in the same industry, needs to come up with new concepts to compete with others.

In addition to creating creative ideas, the right strategy is also needed to anticipate the impact of threats from competing companies. Maintaining consumer trust is one of the strategies that many business actors today do for the products and services offered. Companies must also adjust in the midst of change so that they can conduct more effective and efficient marketing. Batik artisans can increase marketing through online platforms, such as social media and e-commerce, holding local exhibitions and participating in art festivals to attract attention. The subjects of this research are MSME actors who have implemented innovations in business models. Subject selection criteria include: MSMEs that have been operating for at least 3 years, MSMEs have implemented a digital innovation system in their business operations, MSMEs have business performance data before and after the implementation of product innovation.

The collected data will be analyzed using thematic analysis, by identifying themes that emerge from interviews and observations to provide an in-depth understanding of product innovation strategies. Sony, the owner of Batik D'erte, has been a batik craftsman for approximately 20 years, admitting that to ground batik with environmentally friendly natural dye materials is full of struggle so that the batik can be in demand by the community. "All are full of struggle, Alhamdulillah, d'erte natural dye batik products have been widely known and have even been ordered abroad, even from this batik business per month can get a profit of Rp. 25 million," he said.

Environmental analysis is necessary to find out the atmosphere of the environment, both the current environment and future changes to strengthen the company in facing the changing environment. The data collection technique in this study is a documentation study to analyze MSME performance reports. Easier technology allows industry players to be creative in Indonesia to access the international market, in order to increase competitiveness. Competitive advantage refers to circumstances that make business actors superior to other competitors in the market. Competitive advantages can be sourced from various aspects, including having new products that are not owned by other companies, product quality is very good, service, competitive prices can provide added value from customers. It is important to understand marketing performance because it can help MSMEs assess the effectiveness of marketing strategies and techniques that have been implemented. If MSMEs succeed in achieving and maintaining an advantage in competition, good marketing performance will reflect the positive impact of the market innovation strategy that has been implemented. Through continuous monitoring and evaluation of marketing performance and the overall performance of business actors, companies can identify market opportunities and challenges, by taking corrective actions, and develop more effective strategies to achieve long-term growth and sustainability. Good marketing performance is a factor in achieving competitive advantage in the midst of fierce competition. To realize a competitiveness-based MSME development and empowerment strategy, the activity that will be carried out is to collect information about the problems that will be faced by MSMEs related to increasing competitiveness.

Results and Discussion

This research finds that innovation in products and services is very important to increase the competitiveness of MSMEs in Indonesia. MSMEs succeed in creating new products that suit market needs tend to attract more customers and increase sales. Several MSMEs in the Batik artisan sector have developed dyeing materials for making batik with environmentally friendly natural dyes. Innovation in the process has also proven to be effective in improving the operational efficiency of MSMEs. The use of digital technology such as cloud-based inventory management systems and production process automation allows MSMEs to reduce operational costs and accelerate production time. The results of this study are that industry, technology, resources, institutions, and financial intermediation factors contribute to the competitiveness problems faced by small and medium enterprises (MSMEs) in the Batik creative economy. From this aspect, increasing creative human resources to help the use of renewable raw materials is the most important and appropriate development strategy.

Factors that affect MSME product innovation are the availability of skilled personnel who are able to develop new products. The findings of the research are showing an increase in sales ups and downs that batik artisans experience with orders from abroad, and have experienced a decline in sales since the Covid era hit, this can be a reference for the effectiveness of marketing strategies in competition between Batik craftsmen. The use of technology in the production, design, and marketing of products. by developing new products that are different from the main products to reach a wider market. In general, price competition is not suitable for all sellers. The more competent the salesperson, the more competitive they are. Therefore, competition is also one of the external factors that affect innovation in increasing local competitiveness

because the tighter the market can spur MSMEs to continue to innovate to remain competitive. An effective innovation strategy focuses on developing products that are constantly improved both in terms of quality and design. Collaborate with external parties such as collaborating with universities, research institutions, or business partners to create innovative products. Develop new products that are different from the main products to reach a wider market. The challenges faced by MSME actors in the implementation of innovation are that many MSMEs have difficulty obtaining funding for research and development of new products, lack of knowledge in terms of technology and product innovation management.

Innovation strategies have a positive and significant influence on the competitive advantage of MSMEs for business actors. This research shows that MSME entrepreneurs must focus on developing organizational values and capabilities that will encourage business actors to be more innovative in order to develop value and competitive advantages in the MSME market. Technology in today's era is very developed and can be used well in product development. In 2020 covid hit resulted in a decrease in the purchase of products owned by business actors, by utilizing technology business actors can develop their products using technology such as selling online, advertising products on social media, and other media. Then another factor in increasing MSME sales is product innovation in product development and marketing that has been significantly redesigned and improved. E-commerce brings many changes to the trading process. Products can be displayed for 24 hours a day, the operational cost efficiency required is very little, wide range, promotion can be done at an affordable price.

In addition, transactions through social media also have disadvantages, namely the loss that consumers who cannot see the goods directly and feel where the material is made from. Many MSMEs in Indonesia are developing new products to attract a wider market. Product diversification is an important way to respond to changing consumer needs. Innovation strategies are very diverse, ranging from product and technology innovation to collaboration and increasing human resource capacity. Innovation is the main factor in facing the challenges of globalization and digitalization that continue to grow. Therefore, MSMEs are able to innovate, both in terms of products, processes, and marketing, will be better able to compete in the market. The potential of MSMEs is quite significant to the economy of the Indonesian people. However, at the same time, it is undeniable that the condition of MSMEs in Indonesia is still weak in various aspects of business, including in terms of human resource capabilities, facilities and infrastructure, capital and marketing. Therefore, it is important for the government, especially the cooperative and SME offices, to continue to carry out efforts to foster and empower MSMEs. For this reason, a business development strategy for MSMEs needs to be formulated and can be a recommendation for the government in making policies to empower MSMEs in Indonesia.

Conclusions and Suggestions

Product innovation is the key to increasing the competitiveness of MSMEs in Indonesia. Despite many challenges, such as limited resources and market access. MSMEs that successfully implement product innovation strategies in a sustainable manner can win the competition and expand the market. It is important for MSMEs to continue to innovate products to adapt to market changes and increase the competitiveness of local products. By paying attention to the factors that affect innovation, MSMEs can optimize the use of available resources, improve operational efficiency, and utilize technology effectively to create unique selling points.

In addition to creating creative ideas, the right strategy is also needed to anticipate the impact of threats from competing companies. Maintaining consumer trust is one of the strategies that many business actors today do for the products and services offered. Companies must also adjust in the midst of change so that they can conduct more effective and efficient marketing. D'erte batik artisans can increase marketing through online platforms, such as social media and e-commerce, holding local exhibitions and participating in art festivals to attract attention.

The suggestion that can be given is that the Government needs to provide support in the form of policies that encourage researchers and product development as well as skills training for MSMEs. It is recommended to increase collaboration with various parties, such as research institutions, universities, and large companies, to accelerate the innovation process. To overcome capital limitations, MSMEs can pursue various alternative sources of funding, such as business partnerships.

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