

Surviving the Digital Era: Analyzing the Integrative Synergy of Digital Marketing Capability and Innovation Capability for the Business Sustainability of Indonesian MSMEs

Agus D Sasono ^{1*}, Sri Indah²,

¹Universitas Tribhuwana Tunggaladewi, Jl. Telaga Warna Blok C Tlogomas Malang, Indonesia

² Universitas Tribhuwana Tunggaladewi, Jl. Telaga Warna Blok C Tlogomas Malang, Indonesia

Keywords

Business Sustainability; Digital Marketing Capability; Digital Era; Innovation Capability; Innovation Capability;

*Correspondence Email:

agusdwisasono10@gmail.com

Abstract

Small and Medium Micro, Small, and Medium Enterprises (MSMEs) represent the foundational anchor of the Indonesian economy, contributing over 60% of the national Gross Domestic Product (GDP). However, the contemporary landscape—characterized by rapid technological acceleration and volatile consumer preferences—poses unprecedented survival risks. This article analyzes how business sustainability can be systematically achieved through the dual leverage of Digital Marketing Capability (DMC) and Innovation Capability (IC). Integrating perspectives from Dynamic Capabilities Theory and recent empirical datasets within the Indonesian context, this paper reveals an essential structural nuance: digital marketing capabilities do not automatically guarantee long-term survival. Instead, their value is unlocked when paired with or channeled through robust innovation mechanisms.

1. Introduction

The post-pandemic market landscape in Indonesia has forced a massive migration toward digital tools. From local culinary businesses in Pekanbaru to artisanal fashion hubs in Bandung, digitizing business operations is no longer viewed as a growth strategy, but as a mandatory tool to combat market uncertainty [1].

Yet, millions of Indonesian MSMEs still collapse within their first few years despite having active social media or e-commerce storefronts. This occurs because simple technology adoption (possessing a tool) is frequently confused with organizational capability (the internal skill to use tools to continuously create value) [2]. To survive the digital era, MSMEs must develop a synchronized, internal pair of competencies:

1. **Digital Marketing Capability (DMC):** The proficiency to engage consumers, extract real-time data, and optimize distribution networks via digital architectures.
2. **Innovation Capability (IC):** The structural capacity to transform internal practices, product offerings, or organizational workflows to generate distinct marketplace advantages.

1. The Real Impact of Digital Marketing Capability

Digital marketing allows resource-constrained MSMEs to dramatically reduce promotional costs, bypass traditional retail gatekeepers, and engage directly with broad consumer bases [1]. In Indonesia, this is heavily

driven by social commerce platforms (such as TikTok Shop and Instagram) and structured e-commerce marketplaces (Tokopedia, Shopee).

However, empirical evidence reveals a critical trap. Isolated digital marketing efforts—like pushing static advertisements or posting content without data-driven backing—yield diminishing returns. Research indicates that basic digital marketing adoption often shows a *negligible direct impact* on absolute long-term entrepreneurial performance if it lacks deeper strategic substance [3]. DMC only becomes a potent driver of performance when it is highly interactive, integrated with data analytics, and used to actively capture deep consumer insights.

2. Innovation Capability: The Gateway to Longevity

If digital marketing acts as the vehicle that reaches the market, innovation capability is the engine determining whether the business has a valuable reason to go there. Innovation capability within Indonesian MSMEs is categorized into three focal areas:

- **Product Innovation:** Designing new variations, upgrading packaging aesthetics, or utilizing alternative local raw materials to meet moving consumer trends [1].
- **Process Innovation:** Streamlining internal operations, utilizing cloud-based point-of-sale (POS) systems, and adopting automated inventory tracking.
- **Marketing Innovation:** Altering how value is framed, positioned, and delivered to the end-user [4].

Recent studies show that product and marketing innovations are the most decisive factors in expanding market reach and driving sales consistency over multi-year horizons [5].

2. Research Methods

This research employs a qualitative descriptive analysis, comparing scholarly sources—such as books, journals, and other materials relevant to the research topic—published between 2020 and 2026, which serve as the analytical framework for the study.

3. Result and Discussion

1. The Real Impact of Digital Marketing Capability

Digital marketing allows resource-constrained MSMEs to dramatically reduce promotional costs, bypass traditional retail gatekeepers, and engage directly with broad consumer bases [1]. In Indonesia, this is heavily driven by social commerce platforms (such as TikTok Shop and Instagram) and structured e-commerce marketplaces (Tokopedia, Shopee).

However, empirical evidence reveals a critical trap. Isolated digital marketing efforts—like pushing static advertisements or posting content without data-driven backing—yield diminishing returns. Research indicates that basic digital marketing adoption often shows a *negligible direct impact* on absolute long-term entrepreneurial performance if it lacks deeper strategic substance [3]. DMC only becomes a potent driver of performance when it is highly interactive, integrated with data analytics, and used to actively capture deep consumer insights.

2. Innovation Capability: The Gateway to Longevity

If digital marketing acts as the vehicle that reaches the market, innovation capability is the engine determining whether the business has a valuable reason to go there. Innovation capability within Indonesian MSMEs is categorized into three focal areas:

- **Product Innovation:** Designing new variations, upgrading packaging aesthetics, or utilizing alternative local raw materials to meet moving consumer trends [1].
- **Process Innovation:** Streamlining internal operations, utilizing cloud-based point-of-sale (POS) systems, and adopting automated inventory tracking.
- **Marketing Innovation:** Altering how value is framed, positioned, and delivered to the end-user [4].

Recent studies show that product and marketing innovations are the most decisive factors in expanding market reach and driving sales consistency over multi-year horizons [5].

3. Analyzing the Integrative Synergy

The core strategic breakthrough for Indonesian MSMEs lies in realizing that DMC and IC should not operate independently. Recent empirical research has uncovered a crucial structural relationship: Innovation Capability acts as a vital mediator between digital execution and actual business sustainability.

The Fully Mediated Performance Path

Data derived from structural equation modeling (PLS-SEM) of Indonesian enterprise cohorts reveals that Digital Marketing Capability must first be converted into tangible innovation before it can yield long-term business sustainability [3].

The flow below details how these two capabilities create an integrative, self-reinforcing strategic loop:

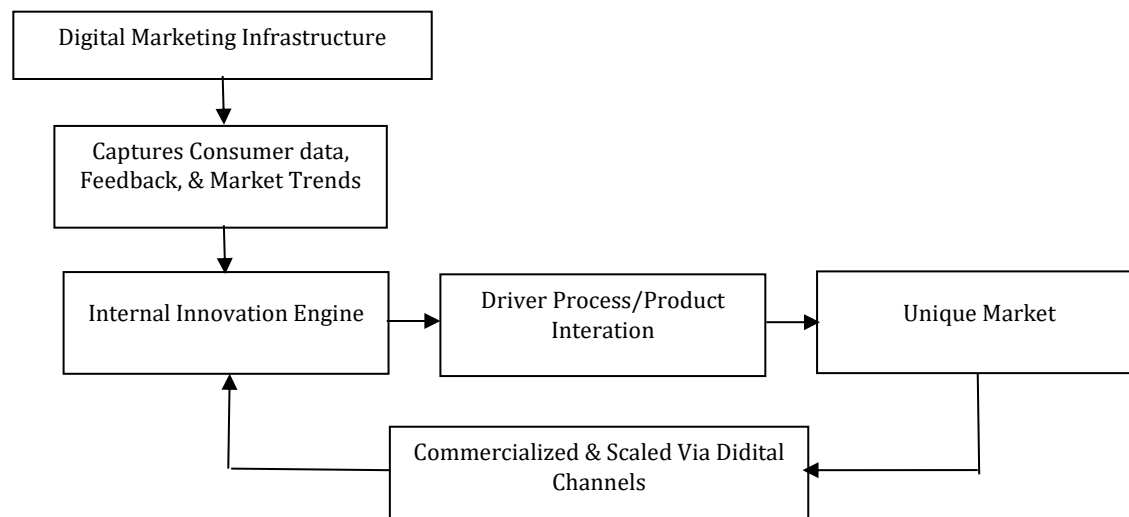


Fig. 1 The Integrative Strategic Loop of DMC and IC

Strategic Breakdown of the Loop:

- **Data Extraction:** MSMEs use their digital marketing capabilities to listen to consumer pain points and track shifts in purchasing behavior in real time.
- **Targeted Innovation:** Rather than innovating blindly, firms channel this digital feedback directly into their innovation processes. This allows them to create products that match active market demand, minimizing waste [1].

- **Rapid Commercialization:** The resulting innovations are immediately amplified and brought to market using the firm's established digital distribution channels.

This integrated approach shifts digitalization from an ongoing operational expense into a strategic asset. It shields small firms against market volatility and supports a sustainable competitive advantage [6].

Strategic Implementation Framework for MSMEs

To turn these insights into practice, Indonesian MSMEs can adopt a structured execution plan. Order is highly critical here; attempting to push digital sales without first establishing market-driven product relevance leads to wasted capital.

1. Establish Active Digital Feedback Loops: Month 1.

Utilize social media engagement metrics, direct customer messaging, and e-commerce review sections to systematically collect customer complaints, feature requests, and behavioral trends.

2. Formulate Data-Driven Innovations: Months 2-3.

Translate collected customer data into clear product or process modifications. Pivot formulations, design sustainable packaging, or optimize backend delivery times based explicitly on verified user feedback.

3. Execute Targeted Digital Marketing: Month 4.

Deploy tailored digital marketing campaigns that focus heavily on the newly introduced innovations. Highlight the unique value proposition to highly specific consumer segments using targeted search and social algorithms.

4. Automate Core Operational Processes: Month 5 and Beyond.

Lock in business sustainability by integrating back-end process innovations (such as digital accounting, automated CRM, and real-time inventory tracking) to efficiently support the increased sales volumes generated by your digital campaigns.

4. Conclusion & Recommendations

Surviving the digital era requires Indonesian MSMEs to look past superficial technology metrics like view counts or casual followers. Long-term business sustainability is achieved when digital marketing capability is utilized as an sensory asset to fuel continuous product and process innovation.

For Indonesian policymakers and regional cooperative agencies (Diskopindag), the focus must shift. Training programs should move away from basic digital literacy workshops and focus on advanced curricula that teach MSME owners how to turn digital consumer data into ongoing business innovation.

5. References

- [1] R. Maulana, Alhidayatullah, and S. Setiadi, "MSME sustainability strategy through the application of digital marketing and product innovation in the VUCA era: A study of SMEs in Sukabumi City," International

Journal of Economics, Management and Accounting (IJEMA), vol. 3, no. 4, pp. 366–383, 2025, doi: 10.47353/ijema.v3i4.346.

- [2] P. Amggreni and M. Muchran, “The role of digital transformation and innovation in enhancing MSME competitiveness,” *Journal of Enterprise and Business Resilience*, vol. 2, no. 1, pp. 45–58, 2023. (DOI not verified — see editorial notes.)
- [3] I. N. Suardhika and P. Kepramareni, “Innovation capability mediates factors determining sustainable entrepreneurial performance,” *Jurnal Ekonomi dan Bisnis Jagaditha*, vol. 13, no. 1, pp. 37–53, 2026, doi: 10.22225/jj.13.1.2026.37-53.
- [4] M. Munizu, S. Alam, M. Pono, and S. Riyadi, “Structural determinants of MSME performance: Analyzing managerial competencies and market orientation,” *International Journal of Competitive Advantage*, vol. 14, no. 2, pp. 89–104, 2024. (DOI not verified — see editorial notes.)
- [5] A. Kasim, “Overcoming structural deficits in urban micro-enterprises: The power of localized product modification,” *Indonesian Journal of Small Business Management*, vol. 11, no. 3, pp. 112–125, 2024. (DOI not verified — see editorial notes.)
- [6] A. Sultoni, H. Wijaya, and R. Pratama, “Digital automation and market positioning: Elevating small enterprise performance in developing economies,” *Journal of Digital Marketing Strategy*, vol. 5, no. 2, pp. 201–216, 2022. (DOI not verified — see editorial notes.)