




Competitive Strategy Through Collaborative Value Creation and Digital Innovation Food of MSMEs

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Abstract. Value creation and digital innovation are two of the ways that can be considered in the competitive strategy of traditional food SMEs in Garut Regency. In the era of the Covid-19 pandemic, traditional food MSMEs experienced a decline in sales because the number of tourists visiting Garut Regency decreased dramatically. The gap in this study is that MSME actors who sold traditional food still had shortcomings in product value creation and were still lacking in the use of digital innovation. The research method used was a qualitative descriptive method through interviews with traditional food SMEs for the period March 2022 to May 2022. Based on the results of the analysis, it was found that product value creation and digital innovation influenced customer satisfaction. Efforts to increase the competitive advantage of traditional food MSME actors can be done by creating added value and utilizing social media as digital innovation so that the products sold can be reached by all consumers. The competitive strategy of MSME products needs to be considered through value creation and digital innovation so that MSMEs are able to adapt to digitalization. Value creation and digital innovation can expand the market share of the products sold.

Keywords: Competitive Strategy · Digital Innovation · Value Creation

1 Introduction

Competitive strategy is a way of determining and setting the company's long-term and short-term goals by empowering all the resources owned by the company so that the company's goals are achieved effectively and efficiently. Competitive strategy is a combination of the end (goals) that the company wants to achieve with the tools (policies) by which the company is trying to get [1]. At the time of the pandemic, MSMEs that were able to survive were MSMEs that were able to adapt to the digital world. Almost 80% of MSMEs use the pandemic momentum as a trigger to change towards digital, connected directly to the digital ecosystem by utilizing e-commerce platforms and marketplaces [2]. Digitalization is the key to how MSMEs are able to survive during the pandemic. The government targets that by 2024 as many as 30 million MSMEs have gone digital. Until the end of 2021, there are 16.4 million MSMEs that have entered the digital

ecosystem. Thus, there are still around 13.6 million MSMEs that must be pursued to go digital immediately. Digitalization of MSMEs will also increase MSMEs' income so that it will make a positive contribution to the gross regional domestic product (GRDP). The income per capita factor as part of the Human Development Index has been proven to have a positive influence on the level of economic growth [3]. The effect of digitalization of MSMEs that can increase GRDP in every province in Indonesia has helped the government in solving economic problems, that is the decline in the unemployment rate, which in Indonesia has reached the level of 7.07% year [4]. Digitalization is very important for changing MSME actors. The advantages of digitalization are a must when a business is in a Less Contact Economy, which can increase wider market access, access to finance, MSMEs competitiveness, and production efficiency and business processes that are not used. Not only about using technology to replace human labor but also about how each business unit can create an automated and integrated system with one another.

1.1 Literature Review

MSMEs

MSMEs stand for Micro, Small, and Medium Enterprises. In everyday life, there are many types of businesses that can be categorized as MSMEs such as grocery stores, food stalls, handicraft businesses, various services, and so on. It can be said that this group of MSMEs dominates in Indonesia. Based on data from the Central Statistics Agency (BPS) in 2020, the number of MSMEs in Indonesia reached 64.2 million business units. MSMEs are generally defined as productive businesses owned and managed by individuals or business entities that have met the criteria as small or micro-scale businesses. Law No. 20 of 2008 [5] has also regulated MSMEs and their criteria. However, on February 16, 2021, Government Regulation No. 7 of 2021 concerning the Ease, Protection, and Empowerment of Cooperatives and Micro, Small and Medium Enterprises (PP UMKM) [6] has been issued by the government along with 48 other implementing regulations from Law no. 11 of 2020 concerning Job Creation (Law on Job Creation) [7]. MSMEs are a group of businesses with a large quantity and also have a big role in maintaining economic stability.

Based on the Department of Cooperatives [8], in general, MSMEs have a role in the economy as:

- 1 The main actor in economic activities
- 2 Employment provider
- 3 Important player in local economic development and community empowerment
- 4 Creator of new markets and sources of innovation
- 5 Contributor to the balance of payment

Competitive Strategy

Competitive strategy is to determine the company's long-term and short-term goals by empowering all the resources owned by the company so that the company's goals are achieved effectively and efficiently. Competitors from an industry perspective are organizations that make the same product or service [9]. Competitive strategy and external factors are very dominant in influencing the level of sales of a product [10]. External factors include advertising expenditures, number of retailers, prices, operating costs, accounts receivable levels, market demand, and raw material costs. The marketing mix can influence consumer buying decisions and subsequent sales of a brand. Porter [1] divides competitive advantage through indicators of cost leadership, differentiation (physical structure, formula, product quality, suitability, packaging), and focus. Porter [1] offers two 'generic' competitive strategies to outperform other firms in a given industry: low cost and differentiation [11]. Low cost is the ability of a company or a business unit to design, manufacture, and market a comparable product in a more efficient manner than its competitors. If a low-cost and differentiation strategy meets a broad target market, then the strategy is known as cost leadership. Porter [1] mentions that if the company wants to increase its business in increasingly fierce competition, the company must choose the principle of doing business, namely high-priced products or low-cost products, not both.

Value Creation

Value is the extent to which customers feel that an item or service has fulfilled their wants or needs, which is measured by the customer's willingness to pay for goods or services. Value creation in general is how a producer or seller produces or makes a product/service so needed to have more value [12]. Value creation can be described as a collaboration created by a company that allows the creation of innovation that is not only an attempt to satisfy temporary consumers [13]. Value creation benefits include functional utility and emotional utility. Product value consists of several elements including product performance (price, features, brand, packaging, warranty), distribution channels, and quality assurance [14]. Value can be created by means of innovation by optimizing the resources owned to develop and survive in a dynamic and turbulent environment [13]. The value of a product can be defined as a comparison between what consumers get and what consumers give [14].

Liu and Mei [15], and Shamah, M., A., Shamah [16] state that value as a service develops from concept to solution by re-examining the company's value system by ensuring the functional value that will be obtained. Value is not only in the form of tangible products, but there is a value that can make consumers feel proud when buying products that are created. The value created by the company for a product can be captured/obtained by both the customer and the company [17]. The creation of product value is supported by an attractive packaging process and product labels as product identities so that consumers can recognize one product from another [18]. Product labeling is a way of providing information about product information regarding product licensing, product content, expiration date, and the company that produces the product [14]. The label is a simple display of the product, which can be an image or text that is uniquely designed to provide differentiating value for the product [14]. The function of the label is to identify the brand on a product in order to determine the product class, explain product

information in detail, how to use the product, and as a form of product promotion by using a unique brand or unique image [14].

Digital Innovation

The era of digitalization 4.0 has begun to be felt in a number of MSME sectors. Industry 4.0 transformation provides customers with more personalization options, as well as efficient production processes, whether for services or products, which all companies, regardless of whether they are producers or intermediaries [19], can leverage to generate and create business opportunities [20]. There are two challenges faced by MSMEs in this digitalization era. First, the challenges faced by MSMEs related to readiness both in terms of products and human resources (HR), and second is the challenge to increase literacy benefits entering the digital ecosystem and accelerate the readiness of MSMEs [21]. Product innovation is the key to success in creating new products that can meet the needs and desires of consumers to buy the product [22]. The digitization process involves both customers and providers. Companies can take advantage of new business opportunities that were not previously explored due to lack of feasibility [23] by:

1. Interacting with customers, through social networks, websites, trends, or direct communication channels to obtain data that can be further converted into information [24] regarding personalization habits and preferences [25].
2. Applying this information to products or services to personalize or create new ones that suit customer requirements and formats [26], such as cloud-based PaaS (Product-as-a Service) or SaaS (Software-as-a-Service) a-Service).
3. Integrating with providers [27] to automate orders for goods, such as drop-shipping models, or different shipping options, such as cyclists or drone-based methods in the future.

2 Method

This research was qualitative research, which examines social situations so that it does not use the terms population and sample. The informants in this study were MSMEs engaged in the food sector as many as 10 business actors in Garut, who have used information technology both social media which includes Facebook, Instagram, YouTube, Tiktok, WhatsApp, and a marketplace that is often used by consumers such as Shopee, Tokopedia, Lazada, and so on. The study used primary data obtained through structured interviews, in-depth interviews, and observations as well as secondary data derived from literature reviews, journal literature studies, and information from the internet. The sampling technique used by the researcher was a purposive sample. Purposive sampling is a way of selecting a number of elements from the population to become sample members, where the selection is made based on decisions on the population that meet the criteria, that are: 1. MSMEs at Garut, 2. MSMEs who want to create value for their products, 3. SMEs that use media social services as digital marketing, 4. MSMEs that are starting to adapt to digital innovation. The total subjects sampled in this study were 10 MSMEs.

3 Result and Discussion

Today's competitive advantage is something that needs attention. The competitive strategy of MSMEs products needs to be considered through value creation and digital innovation. Technological developments make MSMEs actors have to be willing to adapt to digitalization. Marketing through digital must be maximized for revenue and market share. Digital marketing can take advantage of social media that is widely used by consumers, marketplaces, and other platforms, making it easier for MSMEs actors to be able to attract and interact directly with consumers. In this study, the informants of this research were MSMEs actors in the food industry in Garut. The problem experienced by MSMEs actors was the lack of digitalization owned by MSMEs. Digital literacy needs to be improved again, one of which is providing literacy regarding promotional activities through the digital platform through social media. Online marketing is considered more effective today because the information provided can be directly received by consumers. Through online marketing, MSMEs can expand market share, not only market products in Garut Regency. The respondents stated that the use of technology helped them, especially now that all consumers are active on social media and consumers today tend to choose to shop online. Likewise, with product payments, nowadays many consumers are turning to digital payments. From interviews and analysis of the dimensions chosen, the data was reduced to design new co-creation values using the DART model. The results are described in Table 1.

Table 1. Comparison of the DART Model on Existing Value Creation and The New Value Co-creation.

Factor	Existing Value Creation and Digital Innovation	New Value Co- Value Creation and Digital Innovation
Dialogue	<p>MSMEs only focus on communication with customers, suppliers, and business partners in Garut.</p> <p>MSMEs have not had a special forum or special group yet to interact between consumers and producers.</p> <p>MSMEs have not sold their products in the existing marketplace.</p> <p>MSMEs still rely on offline sales.</p> <p>MSMEs still use personal social media to sell.</p> <p>MSMEs still haven't seriously thought about packaging.</p>	<p>Repairs must be based on the consumer's point of view not only from manufacturers.</p> <p>Using online forums to connect MSME customers, suppliers, and business partners</p> <p>Informing the product to customers if the co-value creation product will provide the desired quality in accordance with consumer expectations.</p> <p>Determine what MSME customers want. Asking for advice from customers can be an initial input to increase product co-value creation so that it can expand product sales market share.</p>
Access	<p>Access to product information is still from customers, not maximizing social media.</p> <p>MSMEs still have not implemented technology in business optimally.</p> <p>MSMEs still do not use social media facilities as a promotional strategy.</p> <p>MSMEs still rely on traditional purchases where consumers come to places/shops.</p>	<p>Be proactive in traditional food exhibition events in Indonesia.</p> <p>Be active in using social media to be more interactive with customers, suppliers, and partners.</p> <p>Using social media to expand market share, so that it is not only known in Garut.</p>

(continued)

Table 1. (continued)

Risk Assessment	Currently, MSMEs are still using traditional packaging so that in terms of packaging it is still not optimal. MSMEs only think that labels are just plain text or logo images. Whereas the label is information on a product that contains permission from the Health Department, information on ingredients, expiration date, who made it, and other important elements needed in the label.	Start thinking about the right packaging design and add value to the sale. Must start being a smart producer, starting to care about Health (P-IRT) and halal licensing from MUI. Must already have their own brand as the identity of other products. Setting up technology that can last a long time so that it can be marketed to more distant regions. More attention must be paid to the details of the raw materials so that the taste will always be the same from time to time. Explaining to MSME business partners the importance of providing the same service for existing and new co-value creation products for customers.
Transparency	So far interact transparently with consumers. Provide information related to newly made products and old products. Provide information regarding the product expiration period.	Transparency in providing product information to consumers. Transparency in facilitating dialogue, access, and risk management between consumers and producers. Manufacturers can provide the best information about the products sold to business partners and consumers.

4 Conclusion

The results of this study indicated that MSMEs have not maximized value creation and digital innovation in competitive strategies. Through the implementation of the DART model, SMEs could fix all the weaknesses that have been a problem so far. The use of social media can be maximized to become even closer interactions with consumers and expand market share. It is not easy for SMEs to use the concept of co-value creation because there are many considerations to do so. Another challenge is to convince MSMEs that a product is not only sold for its taste but there must have added value for consumers who buy it.

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