

## Product Innovation and Marketing Strategy of Culinary MSMEs in Improving Local Competitiveness

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### ABSTRACT

This study aims to analyze product innovation and marketing strategies implemented by culinary MSMEs in Pekalongan to enhance business competitiveness within the local market. Using a descriptive qualitative approach with an explorative case study method, data were gathered through in-depth interviews, participatory observations, and documentation from MSMEs active for at least two years. The results indicate that product innovation is driven by menu diversification, the utilization of local materials, and creative packaging. Concurrently, marketing strategies have evolved digitally through social media, food delivery services, and collaborative promotions. The core finding highlights that the integration of product innovation and digital marketing strategies significantly increases turnover, expands market reach, and strengthens brand identity. This study recommends the necessity of training, mentoring, and supportive local government policies, alongside academic collaboration, to bolster the MSME ecosystem based on local potential and solidify explicit local competitiveness.

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### 1. INTRODUCTION

In the era of digital disruption and globalization, local competitiveness is an important indicator of the sustainability of Micro, Small, and Medium Enterprises (MSMEs). MSMEs are required to be more adaptive to changes by innovating, both in product aspects and marketing strategies. Product innovation includes the development of flavors, packaging, menu variants, to presentation that is able to attract the attention of modern consumers without eliminating the local uniqueness that becomes its identity. Meanwhile, the marketing strategy requires MSMEs to not only rely on conventional methods, but also start utilizing digital technologies such as social media, e-commerce, food delivery applications, and collaboration with influencers.

Research by Sinambela and Darmawan (2024) shows that product innovation accompanied by social media-based marketing strategies has a significant influence on improving the performance of MSME businesses. This is in line with the results of the study Zed et al. (2024) which affirms that the sustainability of MSMEs is highly dependent on the innovative ability of business actors to respond to changes in the business environment. Thus, the integration between innovation and marketing is an important pillar in strengthening the competitiveness of MSMEs, especially in the culinary sector.

Pekalongan city as one of the regions with a wealth of diverse traditional culinary. Unfortunately, this potential has not been maximized due to limited access to information, business assistance, and effective marketing strategies. Some MSME players in Pekalongan still rely on word-

of-mouth marketing strategies and have not optimized digital platforms to reach a wider market. In addition, product innovation is generally still simple and has not touched the aspects of branding and product quality industry standards.

According to Fikamalina et al. (2024), MSMEs that do not innovate in business models and products are vulnerable to market stagnation and decreased competitiveness. Therefore, innovative strategies based on local wisdom and digital transformation are relevant approaches to be applied in the development of culinary MSMEs in Pekalongan. This approach needs to be supported by a conducive ecosystem, including training, mentoring, access to financing, as well as strategic partnerships between MSMEs, governments, and educational institutions.

Within the theoretical framework, the Oslo Manual classifies innovations not only in the form of products, but also in processes, marketing and organizations (OECD, 2018). This concept is very relevant to be applied in the context of culinary MSMEs that require integrated innovation from upstream to downstream. Meanwhile, digital marketing strategies in concept 4.0 (Kotler et al., 2017) emphasizes the importance of a personal, human-centric, and community-based approach as an effort to build customer loyalty.

Case studies from various regions show that innovation and digitalization are proven to be able to improve MSME business performance. For example, fish crackers MSMEs in Palembang who adopted a digital marketing strategy managed to increase sales volume and expand the distribution network (Febripratama et al., 2024). Similarly, culinary MSMEs in Serang who received menu and packaging innovation training successfully expanded market segments and increased brand value (Khaeruman et al., 2025).

Seeing the potential and challenges, this study aims to examine how product innovation and marketing strategies can improve the competitiveness of culinary MSMEs in Pekalongan. The main focus of the study includes the identification of forms of product innovation carried out by MSME actors, marketing strategies used (both conventional and digital), and analysis of the obstacles and opportunities faced. This research is expected to provide empirical and practical contributions in the formulation of policies and the development of models for the empowerment of locality-based culinary MSMEs and sustainable innovation.

Based on the background and formulation of the problems that have been described previously, this study aims to:

- a. Identify and analyze the form of product innovation applied by culinary MSMEs in Pekalongan, both in terms of product development, raw materials, presentation, packaging, and product differentiation.
- b. Analyze marketing strategies used by culinary MSMEs in order to improve competitiveness in the local market, including conventional and digital approaches.
- c. Evaluate the impact of product innovation and marketing strategies on business growth, both financially (turnover, profitability), operational (number of customers, market expansion), and social (workforce empowerment and local economic contribution).

## 2. RESEARCH METHOD

### Approaches and types of research

This study uses a descriptive qualitative approach with the aim to understand in depth the phenomenon of product innovation and marketing strategies applied by culinary MSMEs in Pekalongan. This approach is considered relevant because the main focus of research is on the meaning and processes that occur in the field, not solely on the quantification of data.

This type of research is an exploratory case study, focusing on experiences, strategies, and innovative practices carried out by selected culinary MSMEs actors. Case studies enable researchers to gain a deep and thorough contextual understanding of innovation and marketing processes within a specific geographic and social scope.

### Location and object of research

This study was conducted in the city of Pekalongan, Central Java, which is known for its rich traditional culinary and entrepreneurial spirit. The object of the study is MSMEs culinary an active culinary MSMEs that has been operating for at least two years and shows innovative activity in

products and/or marketing. The main focus is micro and small scale business actors with business types such as food stalls, local catering, snack manufacturers, traditional specialties, and online-based businesses.

### **Data collection techniques**

To obtain relevant and accurate data, several data collection techniques are used as follows:

- 1) In-depth Interview

Conducted to the owner or manager of culinary MSMEs to dig up information about the form of product innovation, marketing strategies, constraints, and impact on Business. Interviews are semi-structured to provide narrative exploration space.

- 2) Participatory Observation

Researchers directly observe production activities, interaction with customers, and marketing strategies that are carried out, both offline and online (social media).

- 3) Documentation

Includes secondary data collection such as promotional brochures, social media content, product photos, and simple financial statements (if available).

- 4) Literature Studies

This study also strengthens the analysis by using academic sources in the form of scientific journals, research reports, books, and data from government agencies and research institutions.

### **Informant Determination Techniques**

Informants were selected by purposive sampling technique, which is based on certain criteria that have been set before. The informant criteria include:

- 1) Culinary MSMEs actors active in Pekalongan city

- 2) Have been in business for at least 2 years

- 3) Have done product innovation or marketing strategy in the last 1 year

- 4) Willing to be interviewed and openly provide information

It is estimated that the number of informants in this study as many as 8-10 business actors, representing various types of culinary businesses (main food, snacks, drinks, regional specialties).

### **Data Analysis Techniques**

Data obtained from interviews, observations, and documentation will be analyzed using thematic analysis (thematic analysis), as developed by Braun and Clarke (2006). The analysis process consists of six stages:

- 1) Familiarization with data through interview transcripts and observation notes

- 2) Initial code generation based on initial themes

- 3) Search for the main theme of the collected data

- 4) Revisiting themes and relationships between categories

- 5) Conceptually defining and naming themes secara konseptual

- 6) Narrative report writing based on thematic results

In addition, data triangulation is carried out to increase validity, namely by comparing the results of interviews, observations, and documentation from different sources.

### **Validity And Trustworthiness**

To ensure the validity of the data (trustworthiness), this study applies qualitative data validity criteria according to Lincoln and Guba (1985), namely:

- 1) Credibility: through triangulation and member checking

- 2) Transferability: through detailed contextual descriptions

- 3) Dependability: through systematic recording of processes

- 4) Confirmability: through audit trail and reflective records

### **Research Ethics**

The researcher ensures that the entire research process complies with ethical principles, including:

- 1) Get approval from respondents before the interview

- 2) Maintaining the confidentiality of the identity of business actors
- 3) Convey the aims and objectives of research openly

Use data only for scientific purposes

### 3. RESULTS AND DISCUSSIONS

#### Literature Research

##### Culinary MSMEs as pillars of the local economy

Micro, Small, and Medium Enterprises (MSMEs) are strategic sectors in the Indonesian economy. Data from the Ministry of Cooperatives and MSMEs show that in 2023, MSMEs contributed more than 60% to the national Gross Domestic Product (GDP) and absorbed about 97% of the workforce (KemenkopUKM, 2023). The culinary sector is a sub-sector of MSMEs that has rapid growth, driven by increasing public demand for fast food products, practical, and local value.

Study by Fikamalina et al. (2024) confirms that culinary MSMEs have flexible characteristics in creating and adjusting products according to market trends. On the other hand, limited resources, market access, and marketing knowledge are the main challenges that hinder business growth. Therefore, continuous innovation is needed to improve the competitiveness of culinary MSMEs on a local and national scale.

##### Product innovation in the context of MSMEs

Product innovation refers to the creation or modification of products that generate added value for consumers. According to the Oslo Manual (OECD, 2018), Product Innovation includes feature improvements, design changes, improved material quality, and the use of new technologies in the production process. Innovation can also involve an approach to aesthetic aspects such as packaging, presentation, and the addition of flavors or shapes.

In the context of culinary MSMEs, product innovation is very important given the fierce competition and rapidly changing consumer trends. Studi oleh Zed et al. (2024) found that simple innovations, such as the use of unique local materials or environmentally friendly packaging, can create strong product differentiation.

##### Marketing strategy in culinary MSMEs

A marketing strategy is a set of plans and tactics used to promote a product and increase its competitiveness in the market. Kotler and Keller (2016) mentioned that marketing strategy should include target market understanding, product positioning, and selection of appropriate communication media. Culinary MSMEs tend to rely on word of mouth marketing strategies (word of mouth). However, with the advancement of digital technology, businesses are required to adopt social media-based marketing, e-commerce, and food delivery platforms. Sinambela and Darmawan (2024) emphasize that MSME actors who utilize digital marketing strategies experience a significant increase in turnover, especially if the strategy is consistent and based on attractive visual content.

##### MSME business competitiveness and growth

Business competitiveness is measured by the ability of MSMEs to survive and develop in the midst of market competition. According to Porter (1985), competitive advantage can be gained through innovation, cost efficiency, product differentiation, and focus on specific market segments. The growth of its own business can be observed through indicators of increased turnover, number of customers, market expansion, and the opening of new branches. In a study by Febrirpratama et al. (2024), it was found that MSMEs that are able to integrate product innovation with modern marketing strategies experience faster business growth than those that still survive on conventional methods.

#### Theoretical Framework

The study draws on two main theories:

##### Teori Inovasi Oslo Manual (OECD, 2018)

The Oslo Manual classifies innovations into four types:

- 1) Product innovation: product updates or improvements.

- 2) Process innovation: a change in the method of production or delivery.
- 3) Organizational innovation: changes in internal business practices.
- 4) Marketing innovation: the use of new marketing methods to increase market appeal.

This study specifically focuses on product innovation and marketing innovation in the context of culinary MSMEs.

### **Marketing strategy theory by Kotler & Keller (2016)**

According to Kotler and Keller, an effective marketing strategy involves three main stages:

- 1) Market segmentation: identifying specific consumer groups.
- 2) Targeting: select the target market.
- 3) Positioning: creating a strong product image in the minds of consumers.

This theory is used to analyze how MSME actors structure and implement their marketing strategies locally. The following conceptual framework is used to explain the relationship between the variables studied in this study:



Description:

- 1) Product innovations include changes to menus, recipes, raw materials, packaging, and presentation.
- 2) Marketing strategies include both conventional and digital marketing, such as social media, promotion, and branding.
- 3) Business competitiveness is measured through turnover growth, increased customers, and market expansion.

The relationship between these three variables will be tested through qualitative and quantitative approaches to gain a thorough understanding of the dynamics of culinary MSMEs in Pekalongan.

### **Analysis And Research Results**

#### **Form of Product Innovation applied by culinary MSMEs in Pekalongan city**

The results of interviews and observations show that culinary MSMEs in Pekalongan have implemented various forms of product innovation, both consciously and as a spontaneous response to market needs. Such innovations include:

- 1) Raw material innovation: some actors replace conventional raw materials with healthier or cheaper local alternatives. For example, MSMEs "Warung Dapur Jadoel" replace the use of artificial dyes with natural dyes from pandan leaves and purple sweet potatoes.
- 2) Menu diversification: some businesses develop menu variants from one basic ingredient. For example, processed boiled fish is made into three types of products: fish balls, shredded fish, and Fish Chips.
- 3) Product packaging: MSMEs such as "Mega Snack Pekalongan" innovate environmentally friendly packaging and contemporary packaging design to attract the younger generation.
- 4) Product presentation and Branding: visual innovation and the concept of food presentation is changed to be more "Instagrammable", as done by "Sego Megono Go-Food" with the concept of teak leaf plates and traditional-modern presentation.

This finding is consistent with the study of Fikamalina et al. (2024) which states that small but consistent innovations can have a big impact on consumer perception and buying interest.

### **Marketing strategies used**

Culinary MSMEs in Pekalongan utilize various marketing approaches, including:

- 1) Digital Marketing: almost all of the MSMEs interviewed make use of social media such as Instagram, WhatsApp Business and Facebook. Promotional content tailored to specific moments (eg: Ramadan, Batik Day, national holidays).

- 2) Marketplace and delivery services: most have been registered on GoFood, GrabFood, ShopeeFood, and some have even started selling dry food on Tokopedia and Shopee.
- 3) Collaborative promotion: MSMEs form small communities that do cross-promotion and product bundling. For example, bundling between beverage and snack products that are marketed together.
- 4) Loyalty and discount programs: some businesses implement digital stamp programs for repeat purchases, birthday discounts, as well as "buy 2 Get 1 free" promos.

These strategies are in line with Kotler and Keller's (2016) recommendations in digital and community-based marketing, which emphasize the importance of emotional connection and customer engagement in building loyalty.

### **Impact of Product Innovation and marketing strategies on Business Growth**

From the analysis of the data collected, it can be concluded that the integration of product innovation and marketing strategies have a positive impact on business growth, as seen from:

- 1) Increased turnover: most business actors admit an increase in turnover of up to 20-50% after implementing digital marketing strategies and product innovation. *MSMEs' Pekalongan Batik bread* " recorded a 2 - fold increase in orders after changing the shape and packaging of their products into a typical Pekalongan batik motif.
- 2) Market expansion: MSMEs that previously only reached local consumers can now sell their products outside the city, even outside the province through the marketplace platform.
- 3) Brand Awareness: the name of the product becomes better known. Some MSMEs even got an invitation to participate in a national-scale MSME exhibition after it went viral on social media.
- 4) Production capacity: some MSMEs increase the daily production amount and recruit additional labor, which shows the growth of the business directly.

These findings are in line with a study by Zed et al. (2024) and Sinambela & Darmawan (2024) which underline the importance of synergy between innovation and marketing in supporting the sustainability of micro enterprises.

## **4. CONCLUSION**

This study concludes that strengthening the competitiveness of culinary MSMEs in Pekalongan relies on the synergy between product innovation and digital marketing transformation. Innovation through the use of local raw materials, menu diversification, and creative packaging has been proven to increase product added value without losing local cultural identity. Shifting strategies from conventional methods to digital platforms—such as social media and food delivery services—significantly expands market reach and strengthens brand awareness. The integration of these two aspects makes a real contribution to sustainable business growth, reflected in increased turnover, production capacity, and customer loyalty. The main contribution of this study confirms that an MSME development model based on local wisdom combined with technological adaptation is a key pillar in building competitive advantage at the local level. Despite its significant potential, optimizing this competitiveness is still limited by digital access constraints, limited modern marketing training, and capital constraints, which require further policy intervention.

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