



BUSINESS MODEL DEVELOPMENT AND STRATEGIC INNOVATION FOR STRENGTHENING THE COMPETITIVENESS OF MICRO AND SMALL ENTERPRISES IN INDONESIA

PEMBANGUNAN MODEL BISNIS DAN INOVASI STRATEGIS UNTUK MEMPERKUAT DAYA SAING USAHA MIKRO DAN KECIL DI INDONESIA

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DOI: <https://doi.org/10.62567/micjo.v3i1.2258>

Abstract

This study examines the development of business models and strategic innovation as key mechanisms for enhancing the competitiveness of Micro and Small Enterprises (MSEs) in Indonesia. Using a qualitative descriptive approach, the research analyzes how MSEs adapt to changing market dynamics, consumer preferences, and digital transformation pressures. The findings reveal that innovation in value propositions, customer engagement, and digital marketing plays a significant role in improving business performance. The study also highlights that many MSEs have not yet implemented structured business model frameworks, resulting in limited scalability and reduced competitiveness. The analysis is grounded in the Business Model Canvas (BMC) framework, which is used to identify strategic gaps and opportunity areas. The study concludes that strengthening business models through innovation, partnership development, and digital integration can significantly enhance MSE sustainability and long-term competitiveness.

Keywords : Business model innovation; MSEs; competitiveness; Business Model Canvas; digital transformation.

Abstrak

Studi ini meneliti pengembangan model bisnis dan inovasi strategis sebagai mekanisme kunci untuk meningkatkan daya saing Usaha Mikro dan Kecil (UMK) di Indonesia. Menggunakan pendekatan deskriptif kualitatif, penelitian ini menganalisis bagaimana UMKM beradaptasi dengan dinamika pasar yang berubah, preferensi konsumen, dan tekanan transformasi digital. Temuan penelitian mengungkapkan bahwa inovasi dalam proposisi nilai, keterlibatan pelanggan, dan pemasaran digital memainkan peran penting dalam meningkatkan kinerja bisnis. Studi ini juga menyoroti bahwa banyak UMKM belum menerapkan kerangka model bisnis yang terstruktur, yang mengakibatkan keterbatasan dalam skala dan penurunan daya saing. Analisis ini didasarkan pada kerangka Business Model Canvas (BMC), yang digunakan untuk mengidentifikasi celah strategis dan area peluang. Studi ini



menyimpulkan bahwa memperkuat model bisnis melalui inovasi, pengembangan kemitraan, dan integrasi digital dapat secara signifikan meningkatkan keberlanjutan dan daya saing jangka panjang UMKM.

Kata Kunci : Inovasi model bisnis; UMKM; daya saing; Model Bisnis Kanvas; transformasi digital.

1. INTRODUCTION

Micro and Small Enterprises (MSEs) play a critical role in driving economic growth, employment creation, and community empowerment in developing countries, including Indonesia. As one of the largest contributors to the national economy, MSEs continue to expand across various sectors such as culinary businesses, agriculture, fashion, and creative industries. Despite their growing presence, many MSEs face structural challenges related to limited access to capital, informal management practices, low technological adoption, and weak strategic planning. These conditions often hinder their ability to compete in increasingly dynamic and digitalized markets.

In recent years, the need for MSEs to adopt structured business models and innovative strategies has become more urgent. The Business Model Canvas (BMC), introduced by Osterwalder and Pigneur (2010), offers a comprehensive framework for understanding how enterprises create, deliver, and capture value. Research shows that innovation in business models—particularly in value propositions, customer relationships, marketing channels, and operational processes—significantly influences enterprise resilience and competitiveness. However, many Indonesian MSEs still operate intuitively, relying on experience-based decision-making rather than formal strategic frameworks.

This study explores how business model development and strategic innovation can enhance the competitiveness and sustainability of MSEs in Indonesia. By examining key elements such as customer segments, value propositions, resource management, and partnerships, this research aims to provide insight into strategic opportunities that can strengthen MSE performance. The study contributes to the growing body of literature on MSE development, offering a practical reference for policymakers, entrepreneurs, and stakeholders committed to advancing small business growth and competitiveness.

a. Micro and Small Enterprises (MSEs)

Micro and Small Enterprises (MSEs) are widely recognized as key contributors to economic development, particularly in emerging economies. According to Anisah et al. (2023), MSEs play an essential role in reducing unemployment, empowering communities, and supporting inclusive economic growth. In Indonesia, MSEs dominate the business landscape and are central to poverty alleviation efforts. However, despite their economic significance, MSEs commonly face challenges such as limited access to financial capital, low managerial competencies, minimal technological adoption, and operational informality. These constraints reduce their capacity to compete in an increasingly dynamic and digitalized marketplace. Studies by Alifiyah and Budiman (2021) suggest that without structured managerial frameworks, MSEs struggle to develop strong competitive strategies.



b. Business Model Concepts and Their Strategic Relevance

A business model represents how an enterprise creates, delivers, and captures value. Teece (2010) emphasizes that an effective business model is essential for firms to differentiate themselves and sustain competitive advantages. In the context of MSEs, business models are crucial because they help clarify strategic direction, streamline operations, and improve resource allocation. Morris et al. (2005) argue that small enterprises often rely on informal decision-making rooted in personal experience, making structured business model frameworks an important tool for improving performance and long-term viability. As markets evolve, business model innovation becomes essential, enabling enterprises to respond to customer needs, technological advancements, and competitive pressures (Amit & Zott, 2012).

c. Business Model Canvas (BMC)

The Business Model Canvas introduced by Osterwalder and Pigneur (2010) is widely adopted in entrepreneurship research due to its simplicity, comprehensiveness, and practical relevance. The BMC consists of nine interconnected building blocks:

- ✓ Customer Segments,
- ✓ Value Propositions,
- ✓ Channels,
- ✓ Customer Relationships,
- ✓ Revenue Streams,
- ✓ Key Resources,
- ✓ Key Activities,
- ✓ Key Partnerships,
- ✓ Cost Structure.

These components collectively provide a holistic view of how a business operates and competes in its environment. Previous studies show that using the BMC helps MSEs identify strengths and weaknesses, redesign strategic priorities, and enhance innovation capacity (Bocken et al., 2014). The framework is particularly useful for enterprises with limited managerial expertise, enabling them to visualize and adjust their business operations cost-effectively.

d. Innovation and Competitiveness in MSEs

Innovation plays a crucial role in improving MSE performance and competitiveness. Johnson et al. (2008) assert that innovation is not only about new products but also involves marketing strategies, customer engagement mechanisms, technology adoption, and organizational processes. For culinary and creative MSEs, value innovation—such as improving flavor consistency, enhancing service quality, and adopting digital platforms—can significantly influence customer loyalty and market expansion. However, research indicates that many MSEs fail to integrate innovation effectively due to limited knowledge, financial constraints, and resistance to change (Dwisanto & Ifghaniyafi, 2024).



e. Research Gap

Although previous studies have examined the importance of innovation and business models in SMEs, limited research specifically explores how micro-scale enterprises in Indonesia apply or fail to apply structured business model frameworks. Many studies focus on medium or digital-based enterprises, leaving a gap in understanding the realities of traditional, manually operated microenterprises. Additionally, few studies connect business model development with innovation strategies in the context of local MSEs operating in competitive sectors such as culinary services. This study addresses these gaps by examining the role of business model development and strategic innovation in strengthening MSE competitiveness.

2. RESEARCH METHOD

a. Research Design

This study employs a qualitative descriptive research design to explore how a microenterprise implements the Business Model Canvas and strategic innovation in its daily operations. A qualitative approach is appropriate because it allows for an in-depth understanding of business processes, customer interactions, and managerial perspectives within a natural setting.

b. Data Collection Methods

Three data collection techniques were used:

1) In-depth Interviews

Semi-structured interviews were conducted with the business owner, two employees, and several regular customers. Interview questions focused on operational practices, customer characteristics, value propositions, partnership networks, and innovation activities.

2) Direct Observation

Observations were conducted on-site to document daily operations, customer service processes, product preparation, and business interactions. Observation notes helped validate interview data.

c. Documentation Review

Supporting documents such as menus, purchasing notes, financial records, and promotional materials were analyzed to capture factual operational patterns.

d. Sampling Technique

Participants were selected using purposive sampling, which ensures that only individuals with direct involvement and knowledge of the enterprise's operations contribute to the study.

e. Data Analysis

Data were analyzed using Miles and Huberman's (1994) interactive model, which includes:

- ✓ Data Reduction: summarizing and coding raw data into thematic categories aligned with the BMC;
- ✓ Data Display: organizing information into matrices and narrative descriptions;
- ✓ Conclusion Drawing: interpreting patterns and verifying findings through triangulation.



f. Validity Procedures

To ensure the credibility of the findings, the study employed:

- ✓ Triangulation of interviews, observations, and documents;
- ✓ Member checking, where participants verified the accuracy of interpretations;
- ✓ Audit trail to document methodological transparency.

3. RESULT AND DISCUSSION

a. Customer Segments: Broad Yet Price-Sensitive Market

The results show that the microenterprise serves diverse customer segments, including students, local workers, and neighborhood residents. Most customers demonstrate high price sensitivity and prefer affordable meals delivered quickly. This finding aligns with Alifiyah and Budiman (2021), who emphasize that affordability and accessibility strongly influence purchasing decisions within the culinary MSME sector. The diversity of customers indicates a strong market presence, but also highlights the need for targeted marketing strategies to address specific segment preferences.

b. Value Propositions: Quality, Affordability, and Consistency

The enterprise's core value propositions revolve around affordable pricing, consistent traditional flavors, fast service, and personalized customer interaction. Customers perceive the business as reliable and comfortable due to its home-style taste and friendly service. These elements confirm Osterwalder and Pigneur's (2010) framework, which states that strong value propositions must address customers' functional and emotional needs. The consistent taste of the food becomes a competitive advantage, especially in culinary markets saturated with similar offerings.

c. Channels: Predominantly Offline With Limited Digital Integration

The enterprise relies mainly on direct walk-in customers, word-of-mouth, and basic use of messaging applications for orders. While this channel strategy is effective for existing customers, it limits broader market reach. The findings support Dwisanto and Ifghaniyafi's (2024) argument that low digital adoption remains a major barrier preventing microenterprises from expanding their customer base and improving marketing effectiveness. A more structured digital marketing strategy—using platforms like Instagram, TikTok, or online food delivery services—could significantly enhance visibility.

d. Customer Relationships: Personalized and Trust-Based Interactions

Customer relationships are built through friendliness, familiarity, and personalized service. Regular customers often receive customized portions, informal discounts, or flexible order handling. These relational dynamics create loyalty and repeat purchases, consistent with literature emphasizing the importance of relational capital in MSMEs (Anisah et al., 2023). However, this relationship model heavily depends on the owner's presence, making scalability a challenge.



e. Revenue Streams: Stable but Limited Diversification

Revenue is primarily generated from food and beverage sales, with additional but inconsistent income from delivery services. This simplicity ensures operational stability but also exposes the business to fluctuations in ingredient costs and seasonal demand. Opportunities exist to expand revenue through catering services, weekly meal plans, or collaboration with online delivery platforms—strategies commonly used by growing culinary MSMEs.

f. Key Resources: Human Capital and Operational Assets

Key resources include the owner's culinary expertise, basic cooking equipment, raw materials, and two employees who support daily operations. The study confirms the importance of human capital and skill-based resources in culinary enterprises, as highlighted by Morris et al. (2005). However, limited financial resources and outdated equipment reduce operational efficiency and restrict innovation capacity.

g. Key Activities: Food Preparation and Customer Service Excellence

Key activities observed include food preparation, purchasing raw materials, maintaining product quality, and interacting with customers. These activities reflect operational consistency, a crucial aspect of culinary business success. Improving these activities through standardized operating procedures (SOPs) could help enhance efficiency and service reliability.

h. Key Partnerships: Suppliers, Local Workers, and Community Networks

Partnerships with regular suppliers ensure stable raw material flow, while informal collaboration with local delivery workers increases distribution flexibility. Loyal customers also serve as informal promoters through word-of-mouth recommendations. These partnerships are central to sustaining operations, consistent with Bocken et al.'s (2014) findings that strong networks strengthen business resilience.

i. Cost Structure: Predictable but Vulnerable to External Shocks

The main costs include ingredients, staff wages, utilities, and equipment maintenance. Rising prices of raw materials—especially spices, rice, and cooking oil—pose ongoing financial pressures. Without efficient cost-monitoring systems, the enterprise risks decreased profitability during periods of inflation or supply chain disruptions.

j. Discussion Summary

Overall, the findings indicate that although the microenterprise operates informally, it inherently applies all nine components of the Business Model Canvas. These intuitive practices demonstrate strong adaptability but also expose several strategic gaps, particularly in innovation, digitalization, marketing, and financial management.

The results reinforce the arguments presented in the literature that MSE competitiveness is strengthened when businesses adopt structured frameworks, engage in innovation, and leverage digital tools. Implementing the BMC more formally could help the enterprise identify operational inefficiencies, refine its market strategies, and pursue sustainable growth.



4. CONCLUSION

This study concludes that the microenterprise has successfully implemented the essential components of the Business Model Canvas, albeit informally. The analysis reveals strong value propositions, loyal customer relationships, and effective operational activities, which serve as the foundation for business continuity. However, significant opportunities for improvement exist, particularly in the areas of digital marketing, revenue diversification, operational standardization, and financial management.

By adopting strategic innovations and formalizing its business model, the enterprise can enhance its competitiveness, expand market reach, and strengthen long-term sustainability. This study contributes to the broader literature on MSME development by demonstrating the practical usefulness of the Business Model Canvas as an analytical and strategic tool, especially for micro-scale enterprises operating in dynamic and competitive environments.

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