

ADAPTATION STRATEGIES OF SMEs IN IMPROVING COMPETITIVENESS IN THE DIGITAL ECONOMY ERA IN DENPASAR CITY

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ABSTRACT

This study aims to analyze the adaptation strategies of Small and Medium Enterprises (SMEs) in improving competitiveness in the digital economy era in Denpasar City. The rapid development of digital technology has changed business competition patterns, consumer behavior, marketing systems, transaction models, and internal business management practices. SMEs are required to adapt not only by using digital platforms, but also by improving managerial capacity, product innovation, service quality, digital marketing, collaboration networks, human resource capability, and employee loyalty. In Denpasar City, SMEs have an important role in supporting the local economy, especially in sectors related to trade, culinary businesses, services, creative products, and tourism-supporting activities. However, many SMEs still face challenges such as limited digital literacy, lack of access to technology, limited capital, weak branding, low ability to utilize data-based marketing, and limited employee readiness in responding to digital transformation. This study uses a qualitative descriptive approach based on secondary data analysis. Data were collected through journal articles, government reports, statistical data, previous research findings, and relevant supporting documents related to SME digital adaptation, competitiveness, and employee loyalty. The research focuses on SMEs in Denpasar City that have implemented digital adaptation strategies in their business activities. The results of this study indicate that SME adaptation strategies include the use of social media for promotion, participation in digital marketplaces, digital payment adoption, product innovation, improvement of customer service, strengthening of business networks, and development of employee capability and loyalty. Employee loyalty becomes an important internal factor because loyal employees can support service consistency, customer relationship management, operational stability, and the implementation of digital business practices. These strategies can help SMEs expand market reach, improve operational efficiency, build stronger customer relationships, strengthen internal resources, and increase competitiveness. This

study is expected to provide practical recommendations for SME actors and local government in strengthening SME competitiveness in the digital economy era.

Keywords: adaptation strategy, SMEs, competitiveness, digital economy, employee loyalty, Denpasar City.

1. INTRODUCTION

Small and Medium Enterprises (SMEs) are one of the main pillars of local and national economic development. SMEs contribute to employment creation, community income generation, poverty reduction, and regional economic resilience. In Indonesia, SMEs play a strategic role because they are closely connected to people's daily economic activities and are able to survive in various economic conditions. In the context of Denpasar City, SMEs are also highly relevant because the city is an economic center in Bali that supports trade, culinary businesses, services, creative industries, and tourism-related activities (Nursini, 2020).

The rapid development of the digital economy has created significant changes in the way businesses operate and compete. Digital technology has transformed marketing systems, consumer behavior, payment methods, distribution channels, and business communication patterns. Consumers are now more familiar with online transactions, digital promotions, social media marketing, e-commerce platforms, and cashless payment systems. This transformation encourages SMEs to adapt so that they can remain competitive in an increasingly dynamic market.

However, not all SMEs are able to adapt easily to digital transformation. Many SME actors still face several obstacles, such as limited digital literacy, lack of technological skills, limited access to capital, weak product branding, limited use of digital marketing, and low ability to manage business data. These challenges can reduce the competitiveness of SMEs, especially when they have to compete with larger businesses or other SMEs that have already adopted digital technology more effectively.

In addition to technological and marketing challenges, SMEs also face internal human resource challenges. Digital adaptation requires employees who are willing to learn, use digital tools, maintain service quality, and support changes in business processes. Therefore, employee loyalty becomes an important internal factor in strengthening SME competitiveness. Loyal employees can help maintain operational continuity, provide consistent service, build customer trust, and support the implementation of digital adaptation strategies.

Adaptation strategy is therefore an important issue for SMEs in the digital economy era. Adaptation does not only refer to the use of digital platforms, but also includes changes in mindset, business management, product innovation, customer service, marketing strategy, and partnership networks. Adaptation also includes the ability of SME owners to strengthen

employee capability, maintain employee commitment, and create a supportive work environment during digital transformation. SMEs that are able to adapt can expand their market reach, improve operational efficiency, build stronger customer relationships, and strengthen their competitive position. In contrast, SMEs that fail to adapt may experience difficulties in maintaining customers, increasing sales, and competing in the digital market.

In Denpasar City, SMEs have strong potential to grow because they are supported by local economic activities, tourism, creative products, and digital consumer behavior. Nevertheless, the competitiveness of SMEs depends on their ability to respond to changes in the business environment. Digital adaptation becomes increasingly important because SMEs must not only survive, but also develop sustainable competitive advantages. These advantages can be achieved through product uniqueness, service quality, innovation, digital promotion, online market access, effective customer engagement, and employee loyalty as an internal resource that supports business sustainability.

Previous studies have discussed SME digitalization, competitiveness, and business innovation. However, studies that specifically examine the adaptation strategies of SMEs in increasing competitiveness in the digital economy era in Denpasar City still need further development. Denpasar has a unique economic context because SMEs are closely related to local culture, tourism activities, creative industries, and urban consumer behavior. In addition, the role of employee loyalty in supporting SME adaptation and competitiveness has not been widely emphasized, even though employees play an important role in service delivery, customer interaction, operational stability, and the use of digital business tools. Therefore, research on SME adaptation strategies in Denpasar is important to provide a more contextual understanding of how SMEs respond to digital economic changes.

Based on this background, this study aims to analyze the adaptation strategies implemented by SMEs in Denpasar City to improve their competitiveness in the digital economy era. This study focuses on how SME actors utilize digital technology, develop innovation, improve marketing strategies, strengthen customer relationships, overcome digital transformation challenges, and support employee loyalty as part of internal adaptation strategies. The results of this study are expected to provide theoretical contributions to the study of SME development and practical recommendations for SME actors, local government, and related stakeholders in strengthening SME competitiveness in Denpasar City.

2. LITERATURE REVIEW

2.1 Small and Medium Enterprises

Small and Medium Enterprises (SMEs) are business units that have an important role in supporting economic growth, creating employment opportunities, and strengthening local economic resilience. SMEs are generally characterized by limited capital, simple management systems, flexible business operations, and close relationships with local consumers. Although

SMEs often face limitations in financial resources, technology, and managerial capacity, they have strong potential to grow because they are adaptive to market changes and consumer needs.

In the context of Denpasar City, SMEs are closely related to trade, culinary businesses, services, creative industries, and tourism-supporting activities. The existence of SMEs not only contributes to local income but also strengthens community-based economic activities. Therefore, the development of SMEs needs to be supported by strategies that enable them to compete in a more dynamic and digital business environment (Semarandana & Mustika, 2025).

2.2 Digital Economy

The digital economy refers to economic activities that are supported by digital technology, internet networks, digital platforms, online transactions, and data-based business processes. The development of the digital economy has changed the way businesses communicate with customers, promote products, manage transactions, and distribute goods or services. Digital technology allows business actors to reach wider markets, reduce operational costs, improve service speed, and build stronger relationships with customers (Wati & Agustianti, 2025).

For SMEs, the digital economy creates both opportunities and challenges. On one hand, digital platforms such as social media, marketplaces, digital payment systems, and online delivery services can help SMEs increase sales and expand market reach. On the other hand, SMEs must also face challenges such as digital literacy limitations, technological adaptation, intense competition, cybersecurity risks, and the need to maintain service quality in online channels. Therefore, SMEs need appropriate adaptation strategies to survive and compete in the digital economy era.

2.3 Adaptation Strategy

Adaptation strategy is a set of actions taken by business actors to adjust to changes in the external environment. In business management, adaptation is important because market conditions, technology, consumer behavior, and competition continue to change. SMEs that are able to adapt can respond more effectively to new opportunities and threats. Conversely, SMEs that fail to adapt may experience declining sales, loss of customers, and weakened competitiveness.

In the digital economy era, adaptation strategies may include the use of social media marketing, participation in online marketplaces, adoption of digital payment systems, product innovation, improvement of packaging and branding, service quality enhancement, and collaboration with digital partners. Adaptation strategies also include internal business adjustments, such as improving employee capability, strengthening employee commitment, and maintaining employee loyalty during digital transformation. Adaptation also involves changes in mindset, where SME actors must be willing to learn, experiment, and improve their business processes. Thus, adaptation strategy is not only related to technology adoption but also to managerial readiness and business transformation (Fajriah, 2025).

2.4 SME Competitiveness

Competitiveness refers to the ability of a business to maintain and improve its market position compared to competitors. For SMEs, competitiveness can be reflected in product quality, price suitability, innovation, service quality, market access, brand image, customer loyalty, operational efficiency, and the ability to maintain loyal and capable employees. SMEs with strong competitiveness are better able to survive market changes and attract customers in both offline and online markets (Putri & Prabowo, 2025).

In the digital economy era, competitiveness is increasingly influenced by the ability of SMEs to utilize technology. SMEs that can use digital marketing, online sales channels, and customer data effectively tend to have greater opportunities to increase visibility and sales. However, competitiveness is not only determined by digital presence. SMEs also need to maintain product uniqueness, consistency of quality, customer trust, responsiveness to consumer feedback, and employee loyalty that supports service consistency and operational stability. Therefore, digital adaptation must be combined with internal business improvements.

2.5 Digital Marketing

Digital marketing is one of the main strategies used by SMEs to improve competitiveness. Digital marketing includes promotional activities through social media, websites, marketplaces, search engines, online advertisements, and content-based marketing. Through digital marketing, SMEs can introduce their products to wider audiences, interact directly with consumers, and build brand awareness at relatively lower costs compared to conventional marketing.

Social media platforms such as Instagram, TikTok, Facebook, and WhatsApp Business are widely used by SMEs because they are accessible, affordable, and effective in reaching target consumers. In addition, digital marketing allows SMEs to display product photos, customer testimonials, promotional content, and real-time business information. However, the effectiveness of digital marketing depends on content quality, consistency, audience understanding, and the ability to communicate product value clearly (Nurasmah dkk., 2025).

2.6 Product Innovation and Service Quality

Product innovation is an important element in strengthening SME competitiveness. Innovation can be carried out through product design improvement, flavor variation, packaging development, product diversification, and adjustment to consumer trends. In Denpasar City, where SMEs are closely related to tourism, culinary businesses, and creative industries, product innovation can become a key factor in attracting consumers and differentiating products from competitors (Pusung dkk., 2023).

Service quality is also important because consumers in the digital era not only assess products, but also the overall shopping experience. Fast response, friendly communication, accurate product information, timely delivery, and after-sales service can increase customer satisfaction. SMEs that provide good service are more likely to build customer loyalty and

receive positive reviews. Service quality is closely related to employee loyalty because loyal employees tend to maintain service consistency, communicate better with customers, and support long-term customer relationships. Therefore, product innovation and service quality should be integrated into SME adaptation strategies.

2.7 Employee Loyalty as an Internal Resource in SME Competitiveness

Employee loyalty refers to employees' willingness to remain in an organization, support organizational goals, maintain work commitment, and contribute to business sustainability. In SMEs, employee loyalty is an important internal factor because employees often have direct roles in serving customers, managing daily operations, handling digital platforms, maintaining product quality, and supporting business transformation. Loyal employees can help SMEs create consistent service, strengthen customer trust, reduce operational disruption, and support adaptation to digital business practices.

In the digital economy era, employee loyalty becomes increasingly relevant because digital transformation requires employees who are willing to learn new technologies, adapt to changing work processes, and support the use of digital tools such as social media, marketplaces, digital payment systems, and online customer communication channels. SMEs that provide clear communication, supportive leadership, digital training, fair workload distribution, and opportunities for employee involvement are more likely to maintain employee loyalty. Conversely, digital transformation may weaken employee loyalty if employees experience role ambiguity, work pressure, limited digital competence, or lack of organizational support.

Therefore, employee loyalty can be understood as part of SME adaptation strategy. Loyal employees support competitiveness by improving service quality, maintaining operational continuity, strengthening customer relationships, and helping SMEs implement digital transformation more effectively. In this context, employee loyalty does not replace competitiveness as the main focus of the study, but becomes an internal resource that contributes to SME competitiveness in the digital economy era.

2.8 Resource-Based View

This study is supported by the Resource-Based View (RBV), which explains that business competitiveness can be achieved when a firm has valuable, rare, difficult-to-imitate, and well-organized resources. In the context of SMEs, these resources may include product uniqueness, entrepreneurial skills, customer relationships, local cultural identity, digital capability, brand reputation, business networks, and loyal employees who support operational continuity and service quality.

Based on RBV, SMEs can improve competitiveness by managing their internal resources effectively. Digital technology can become a strategic resource when SME actors are able to use it to create value, improve efficiency, and reach wider markets. However, technology alone is not enough. SMEs must combine digital capability with creativity, innovation, service

quality, local strengths, and employee loyalty to build sustainable competitive advantages (Widnyani dkk., 2025).

2.9 Dynamic Capability Theory

Dynamic Capability Theory explains the ability of an organization to integrate, build, and reconfigure internal and external resources in response to environmental changes. This theory is relevant to SMEs because the digital economy requires business actors to continuously adapt to technological developments, changing consumer behavior, and increasing competition (Matarazzo dkk., 2021).

SMEs with strong dynamic capabilities are able to identify market changes, seize digital opportunities, and transform their business processes. These capabilities can be reflected in the ability to learn new technologies, adjust marketing strategies, collaborate with digital platforms, improve products, respond to customer feedback, and develop employee readiness to support digital transformation. Therefore, dynamic capability is an important theoretical foundation for understanding how SMEs develop adaptation strategies in the digital economy era.

2.10 Conceptual Framework

Based on the literature review, this study views SME adaptation strategy as a key factor in improving competitiveness in the digital economy era. Adaptation strategies include digital marketing, marketplace utilization, digital payment adoption, product innovation, service quality improvement, branding, business networking, employee capability development, and employee loyalty strengthening. These strategies are expected to help SMEs expand market reach, increase customer engagement, improve operational efficiency, strengthen internal resources, and strengthen competitive advantage.

The conceptual framework of this study explains that changes in the digital economy encourage SMEs to adapt. The success of this adaptation depends on digital literacy, managerial capability, innovation, resource utilization, external support, and employee loyalty as an internal factor that supports service consistency and business sustainability. When SMEs are able to implement appropriate adaptation strategies, they can improve their competitiveness and sustain their business performance in a changing market environment (Bahtiar dkk., 2025).

3. METHODS

3.1 Research Design

This study uses a qualitative descriptive approach based on secondary data analysis. This approach is considered appropriate because the study aims to explore and describe the adaptation strategies of Small and Medium Enterprises (SMEs) in improving competitiveness in the digital economy era. The qualitative approach allows the researcher to understand strategic patterns, challenges, and internal factors that support SME competitiveness, including employee loyalty as part of internal business adaptation.

The focus of this study is not to measure statistical relationships between variables, but to obtain an in-depth understanding of how SMEs adapt to digital economic changes. Since this study is based on secondary qualitative data, the analysis does not rely on direct field interviews or direct observation. Instead, the study interprets and synthesizes information from relevant documents, previous research findings, journal articles, government reports, statistical data, and other supporting sources related to SME digital adaptation, competitiveness, and employee loyalty.

3.2 Research Location

This research focuses on Denpasar City, Bali. Denpasar was selected as the research context because it is one of the economic centers in Bali and has various SME sectors, including culinary businesses, trade, services, creative industries, and tourism-supporting activities. The development of digital consumer behavior in Denpasar also makes this city relevant for examining SME adaptation strategies in the digital economy era.

Although this study does not conduct direct field research, Denpasar City is used as the contextual focus of analysis. Secondary data related to SME development, digital economy trends, local economic structure, consumer behavior, and SME competitiveness in Denpasar are used to support the discussion.

3.3 Data Sources

The data used in this study are secondary data. Secondary data refer to information obtained from existing sources that are relevant to the research topic. The data sources include journal articles, books, government publications, statistical reports, official documents, previous research findings, and other credible documents related to SMEs, digital economy, competitiveness, digital marketing, product innovation, service quality, human resource capability, and employee loyalty.

The selection of secondary data sources was based on their relevance to the research objectives. The main criteria for data sources are as follows:

1. The source discusses SMEs, digital adaptation, competitiveness, or the digital economy.
2. The source provides information related to SMEs in Indonesia, Bali, or Denpasar City.
3. The source contains theoretical or empirical discussion related to business adaptation, Resource-Based View, Dynamic Capability Theory, service quality, customer relationship, human resource capability, or employee loyalty.
4. The source is considered credible, such as academic journals, official government reports, statistical publications, or relevant previous studies.
5. The source supports the analysis of how SME adaptation strategies contribute to competitiveness in the digital economy era.

3.4 Data Collection Techniques

Data in this study were collected through literature review and documentation study. Literature review was conducted by identifying and examining relevant academic sources related to SME adaptation strategies, digital transformation, competitiveness, and employee loyalty. Documentation study was conducted by reviewing supporting documents, such as government reports, statistical data, policy documents, and previous research findings related to SME development in Indonesia, Bali, and Denpasar City.

The data collection process was carried out by selecting, reading, classifying, and summarizing relevant information from secondary sources. The collected information was then organized based on the main themes of the study, including digital marketing, marketplace utilization, digital payment adoption, product innovation, service quality, business networking, human resource readiness, employee loyalty, and SME competitiveness.

3.5 Research Instruments

The main instrument in this qualitative research is the researcher. The researcher is responsible for collecting, interpreting, and analyzing data based on the research focus. In this secondary qualitative study, the researcher acts as the key instrument in selecting relevant documents, evaluating source credibility, categorizing information, and interpreting the relationship between SME adaptation strategies and competitiveness.

Supporting instruments used in this study include documentation guidelines and data classification sheets. These instruments help the researcher organize secondary data according to the themes of the study. The themes include SME characteristics, digital economy development, adaptation strategies, digital marketing, innovation, service quality, employee loyalty, Resource-Based View, Dynamic Capability Theory, and competitiveness improvement.

3.6 Data Analysis Technique

The data analysis technique used in this study is qualitative descriptive analysis. The analysis was conducted through several stages, namely data reduction, data display, thematic interpretation, and conclusion drawing. Data reduction was carried out by selecting and simplifying relevant information from secondary sources. The researcher focused on data related to SME adaptation strategies, digital transformation, competitiveness, and employee loyalty as an internal resource that supports competitiveness.

Data display was conducted by presenting information in the form of descriptions, categories, and thematic patterns. This stage helped the researcher identify the relationship between digital adaptation strategies and SME competitiveness. Thematic interpretation was then used to explain how digital marketing, marketplace utilization, digital payment systems, product innovation, service quality, business networks, and employee loyalty contribute to SME competitiveness in the digital economy era.

The final stage is conclusion drawing. In this stage, the researcher interpreted the findings and explained how SMEs in Denpasar City can improve competitiveness through comprehensive adaptation strategies. The interpretation was also connected to the Resource-Based View and Dynamic Capability Theory to strengthen the theoretical foundation of the study.

3.7 Data Validity

To ensure data validity, this study uses source credibility checking and data triangulation based on secondary sources. Source credibility checking was conducted by selecting sources from academic journals, official government publications, statistical reports, and relevant previous studies. The researcher also compared information from different sources to ensure consistency and accuracy.

Data triangulation was conducted by comparing findings from various secondary data sources, such as journal articles, government reports, statistical data, and previous research. This process was used to strengthen the credibility of the analysis and reduce bias in interpreting SME adaptation strategies, competitiveness, and employee loyalty.

In addition, the researcher conducted careful data checking by reviewing the relevance of each source to the research focus. Only information that was directly related to SME digital adaptation, competitiveness, internal resources, and employee loyalty was used in the analysis. Through this process, the research findings are expected to accurately represent the adaptation strategies of SMEs in Denpasar City.

3.8 Research Procedure

The research procedure consists of several stages. First, the researcher identified the research problem and determined the research focus. Second, the researcher collected relevant secondary data from journal articles, government reports, statistical publications, and previous research. Third, the researcher classified the data based on the main themes of the study, including digital adaptation, competitiveness, and employee loyalty.

Fourth, the data were analyzed using qualitative descriptive analysis. Fifth, the researcher interpreted the findings based on the Resource-Based View and Dynamic Capability Theory. Finally, the researcher drew conclusions and formulated recommendations related to SME adaptation strategies in improving competitiveness in the digital economy era, including the importance of employee loyalty as an internal factor supporting SME competitiveness.

4. RESULTS AND DISCUSSION

4.1 Overview of SME Adaptation in Indonesia, Bali, and Denpasar City

SMEs have a strategic position in Indonesia's economic structure. Nationally, SMEs remain one of the main pillars of the economy because they contribute significantly to national economic growth and workforce absorption. This condition indicates that SMEs are not only

important as business entities, but also as a major source of employment and household income (Wahyudi dkk., 2024).

In the digital economy era, the large number of SMEs creates both opportunities and challenges. The opportunity lies in the ability of digital platforms to expand market access, reduce promotional costs, and improve business efficiency. However, the challenge lies in the uneven digital readiness among SME actors. National data show that many business actors have begun adopting digital technology, while the government continues to encourage business actors to enter the digital ecosystem. This condition strengthens the argument that digital adaptation is no longer optional, but has become a strategic necessity for SMEs.

At the provincial level, Bali also shows a strong SME base. The 2025 Work Plan of the Bali Provincial Office of Cooperatives and SMEs notes that the number of SMEs in Bali reached 442,848 units in 2023. This shows that SMEs are an important part of Bali's regional economy. In addition, BPS Bali describes small industries as labor-intensive businesses that contribute to job creation and local economic activity. These characteristics are relevant to Bali, where many small businesses are closely connected to tourism, trade, culinary activities, handicrafts, and creative products.

In Denpasar City, SMEs have a very significant role in supporting urban economic activities. Data from the Denpasar Cooperatives and SMEs Office records 32,626 SMEs spread across four districts. Denpasar Barat has the largest number with 10,463 SMEs, followed by Denpasar Utara with 9,569 SMEs, Denpasar Selatan with 7,873 SMEs, and Denpasar Timur with 4,721 SMEs. Based on business sectors, culinary SMEs dominate with around 33 percent of the total, followed by fashion at 24 percent, agribusiness at 18 percent, automotive at 8 percent, education at 3 percent, information technology at 3 percent, and other sectors at 11 percent.

The dominance of culinary, fashion, agribusiness, and other service-based SMEs shows that Denpasar SMEs are closely connected to consumer lifestyle, tourism, and urban market demand. This condition makes digital adaptation highly relevant because these sectors depend strongly on visibility, customer trust, visual promotion, service speed, and market reach.

4.2 Digital Readiness and Market Opportunity in Denpasar City

The digital adaptation of SMEs in Denpasar is supported by the relatively high use of communication technology among the population. BPS Kota Denpasar reports that in 2024, 93.43 percent of Denpasar residents used mobile phones. The use of mobile phones is closely related to internet access, with residents using the internet for entertainment, information or news, and social media. Specifically, internet use for social media reached 84.87 percent, while use for information or news reached 85.78 percent.

This data provides a strong basis for SMEs to use digital marketing strategies. Since most consumers in Denpasar are already familiar with mobile phones, internet access, and social media, SMEs have a favorable market environment to promote products through Instagram,

TikTok, Facebook, WhatsApp Business, marketplaces, and online delivery platforms. For culinary and fashion SMEs, visual-based digital platforms are particularly important because product attractiveness can be built through photos, short videos, testimonials, customer reviews, and promotional content.

The high level of mobile phone and social media use also changes consumer behavior. Consumers increasingly seek product information online, compare prices, read reviews, and communicate directly with sellers before making purchases. Therefore, SMEs that are able to build digital presence and maintain active communication with customers have greater opportunities to increase competitiveness (Martiah dkk., 2024).

4.3 Digital Marketing as an Adaptation Strategy

One of the main adaptation strategies implemented by SMEs in Denpasar City is digital marketing. This strategy is highly relevant because Denpasar has a large number of SMEs in consumer-oriented sectors, especially culinary and fashion. Culinary SMEs, which dominate the SME structure in Denpasar, rely heavily on product appearance, customer trust, location accessibility, and service speed. Digital marketing allows culinary businesses to display product photos, menu variations, promotional packages, customer testimonials, and delivery information (Sulistyawati, 2023).

The use of social media is also important because the majority of Denpasar residents are connected to digital communication channels. SMEs can use Instagram and TikTok to build product awareness, WhatsApp Business to manage customer orders, and Facebook or marketplaces to reach broader audiences. For SMEs with limited capital, digital marketing is more affordable than conventional promotion. It also allows business actors to interact directly with customers and adjust promotional content based on consumer response.

However, not all SMEs can optimize digital marketing effectively. Some SME actors still use social media only as a simple product catalog without consistent content planning, audience targeting, or performance evaluation. This indicates that digital adaptation requires not only access to technology but also digital literacy, creativity, content management skills, and understanding of consumer behavior.

4.4 Utilization of Marketplace and Digital Payment Systems

The development of the digital economy encourages SMEs to expand their sales channels through marketplaces and online delivery platforms. For Denpasar SMEs, especially those in culinary, fashion, and creative products, marketplaces provide an opportunity to reach customers beyond physical business locations. Online delivery platforms also help culinary SMEs serve consumers who prefer convenience and fast access.

Digital payment systems have also become an important part of SME adaptation. The increasing use of mobile phones and digital financial services makes cashless transactions more familiar to urban consumers. Digital payment options such as QRIS, mobile banking, and e-wallets can improve transaction efficiency, reduce dependence on cash, and create a more

practical shopping experience. For SMEs, digital payments can also support better transaction recording and financial management.

Nevertheless, several challenges remain. Some SMEs still face difficulties in understanding platform features, managing online orders, handling service fees, and competing with similar products. Therefore, marketplace and digital payment adoption must be supported by managerial readiness, product differentiation, and basic financial literacy (Erwita & Handayani, 2024).

4.5 Product Innovation and Branding

Product innovation and branding are important strategies for increasing SME competitiveness in Denpasar City. The local economic structure of Denpasar supports this argument. BPS Kota Denpasar reports that the economy of Denpasar grew by 5.55 percent in 2024, with the accommodation and food service sector contributing 25.55 percent to the city's Gross Regional Domestic Product. In addition, the working population in Denpasar is largely concentrated in trade and accommodation-food service activities. This condition shows that competition in consumer-based sectors is high, especially in culinary, tourism-supporting products, and services (Semarandana & Mustika, 2025).

In a competitive market, SMEs cannot rely only on selling products. They need to build unique value. Product innovation can be carried out through new product variants, improved packaging, better quality control, local cultural identity, and adjustment to consumer trends. For example, culinary SMEs can develop local Balinese flavors with modern presentation, while fashion and craft SMEs can combine local design with contemporary market preferences.

Branding is also essential because consumers in the digital era often make purchasing decisions based on visual identity, online reputation, reviews, and perceived product uniqueness. SMEs with clear brand identity, attractive packaging, consistent content, and strong customer communication are more likely to be remembered by consumers. Therefore, digital adaptation must be integrated with branding and innovation, not merely the use of online platforms.

4.6 Service Quality and Customer Relationship

Service quality is a key factor in improving SME competitiveness. In the digital economy, consumers expect fast responses, clear information, easy transactions, and reliable delivery. SMEs that are able to respond quickly through WhatsApp Business, social media direct messages, and marketplace chat features can build stronger customer relationships.

This is particularly important in Denpasar because many SMEs operate in sectors that depend on repeat customers, such as culinary, fashion, services, and tourism-supporting businesses. Good service can increase customer satisfaction, encourage repeat purchases, and generate positive reviews. In digital platforms, positive reviews and testimonials can function as social proof that strengthens consumer trust.

However, maintaining service quality requires consistency. SMEs need to manage product availability, delivery schedules, complaint handling, and customer communication. If digital promotion is not supported by reliable service, customer trust can decline. Therefore, service quality must become part of SME adaptation strategy (Pangkey & Kainde, 2026).

4.7 Employee Loyalty as a Supporting Factor of SME Competitiveness

Employee loyalty is an important internal factor that supports SME competitiveness in the digital economy era. Digital adaptation does not only require the use of social media, marketplaces, digital payment systems, and online promotion, but also requires employees who are willing to learn, adapt, and support changes in business operations. In SMEs, employees often have direct roles in serving customers, managing transactions, preparing products, handling online orders, responding to customer inquiries, and maintaining service quality. Therefore, employee loyalty can strengthen the implementation of adaptation strategies.

In the context of Denpasar City, many SMEs operate in consumer-oriented sectors such as culinary businesses, fashion, services, and tourism-supporting activities. These sectors depend strongly on service consistency, customer trust, product quality, and repeat purchases. Loyal employees can help SMEs maintain these factors because they understand business routines, customer preferences, service standards, and operational needs. When employees are loyal, SMEs can reduce operational disruption, maintain service quality, and respond more effectively to customer demands in both offline and online markets.

Employee loyalty also supports digital transformation. SMEs that adopt digital platforms need employees who can use social media, marketplace features, digital payment systems, and customer communication tools. Employees who are loyal and committed are more likely to participate in learning processes, accept new work systems, and support business owners in implementing digital strategies. This condition can improve the effectiveness of digital adaptation and strengthen SME competitiveness.

However, digital transformation can also create challenges for employee loyalty. The use of digital platforms may increase workload, require new skills, create role ambiguity, and demand faster responses to customers. If SME owners do not provide clear communication, digital training, fair workload distribution, and supportive leadership, employees may experience pressure and reduced commitment. Therefore, employee loyalty should be strengthened through internal adaptation strategies, such as employee involvement, skill development, work clarity, appreciation, and supportive working relationships.

Based on the Resource-Based View, loyal employees can be understood as valuable internal resources because they contribute to service quality, operational stability, customer relationship management, and business continuity. From the perspective of Dynamic Capability Theory, employee loyalty also supports the ability of SMEs to adjust internal resources and transform business practices in response to digital economic changes. Thus, employee loyalty is not separate from SME competitiveness, but becomes one of the internal foundations that helps SMEs survive and compete in the digital economy era.

4.8 Challenges Faced by SMEs in Digital Adaptation

Although digital adaptation provides many opportunities, SMEs in Denpasar City still face several challenges. These challenges are consistent with the national condition of small and medium business sectors, which still experience limitations in access to capital, human resource quality, management capability, and business legality. In the context of Denpasar, these challenges can appear in the form of limited digital literacy, lack of content creation skills, limited marketing budget, weak financial recording, difficulty in maintaining consistent online promotion, and limited employee readiness in adapting to digital business practices (Anatan dkk., 2023).

The large number of SMEs in Denpasar also creates intense competition. With more than 32,000 SMEs operating in the city and culinary businesses dominating the sectoral composition, SME actors must compete not only in price but also in product quality, service quality, branding, digital visibility, and the ability to maintain loyal employees who can support business operations consistently. SMEs that do not have strong differentiation may find it difficult to attract consumers, especially when customers can easily compare products through digital platforms.

Therefore, digital adaptation should not be understood only as joining marketplaces or creating social media accounts. It must involve strategic changes in product development, branding, customer service, transaction systems, business management, and human resource management. SME owners need to strengthen employee loyalty by providing clear work direction, basic digital training, supportive communication, fair workload distribution, and appreciation for employee contribution. Without loyal and capable employees, digital adaptation may not be implemented effectively and may not produce sustainable competitiveness.

4.9 SME Competitiveness in the Digital Economy Era

The findings indicate that SME competitiveness in Denpasar City is influenced by the ability of business actors to adapt to digital transformation. Digital adaptation helps SMEs expand market reach, increase product visibility, improve transaction convenience, and strengthen customer relationships. This is especially relevant because Denpasar has a strong urban consumer base, high mobile phone usage, active social media use, and a large number of SMEs in consumer-oriented sectors.

Competitiveness is not only reflected in sales volume, but also in the ability to maintain customers, respond to market trends, create product differentiation, build a positive brand image, maintain service consistency, and develop loyal employees who support business sustainability. SMEs that actively use social media, marketplaces, digital payments, and customer communication tools tend to be more prepared to face digital competition. However, digital tools must be supported by innovation, service quality, managerial capability, and employee loyalty (Yasa dkk., 2020).

Employee loyalty strengthens competitiveness because loyal employees can help SMEs maintain service standards, reduce employee turnover, support customer relationship management, and participate in digital business transformation. In small business contexts, the role of employees is often direct and multifunctional, so employee commitment becomes highly important. Employees may be involved not only in production or service delivery, but also in online promotion, order management, customer communication, and transaction handling. Therefore, employee loyalty contributes to both internal stability and external competitiveness.

4.10 Discussion

The results of this study support the Resource-Based View, which explains that competitiveness can be built when businesses are able to manage valuable resources. In the context of Denpasar SMEs, these resources include local product uniqueness, customer relationships, digital capability, branding, business networks, and employee loyalty. SMEs that are able to combine these resources can build stronger competitive advantages (Widnyani dkk., 2025).

Employee loyalty is relevant to the Resource-Based View because loyal employees represent valuable internal resources that support service consistency, operational continuity, customer trust, and business learning. In SMEs, employees often have close relationships with customers and are directly involved in daily business activities. Therefore, maintaining employee loyalty can help SMEs strengthen internal capability and improve competitiveness in the digital economy era.

The findings also support Dynamic Capability Theory. The digital economy requires SMEs to continuously sense market changes, seize digital opportunities, and transform business practices. In Denpasar City, this capability is reflected in the use of digital marketing, marketplace participation, digital payments, product innovation, customer service improvement, and employee readiness to support digital transformation.

From the perspective of Dynamic Capability Theory, employee loyalty supports SMEs in reconfiguring internal resources when business conditions change. Loyal employees are more likely to accept new work systems, learn digital tools, maintain service quality, and support business innovation. Therefore, employee loyalty strengthens the ability of SMEs to adapt continuously in a competitive digital environment.

The data from Indonesia, Bali, and Denpasar strengthen the argument that SME adaptation is urgent. Nationally, SMEs dominate employment and economic contribution. At the provincial level, Bali has a strong SME base, showing the importance of small businesses in the regional economy. At the city level, Denpasar has more than thirty thousand SMEs, with culinary, fashion, and agribusiness as dominant sectors. In addition, Denpasar's high mobile phone and social media usage creates a favorable environment for digital-based business strategies.

Overall, the discussion shows that SME competitiveness in the digital economy era depends on the ability to integrate digital technology with business innovation. SMEs that only use digital platforms without improving product quality, branding, service quality, management, and employee loyalty may not achieve sustainable competitiveness. Therefore, SME adaptation strategies must be comprehensive, combining digital marketing, product innovation, digital payment adoption, customer relationship management, continuous learning, and employee loyalty strengthening as part of internal resource development.

5. CONCLUSION AND LIMITATION

5.1 Conclusion

This study concludes that SME adaptation strategies play an important role in improving competitiveness in the digital economy era, especially in Denpasar City. SMEs are required to adapt to changes in consumer behavior, market competition, transaction systems, and promotional channels that are increasingly influenced by digital technology. The findings show that digital adaptation is not only related to the use of online platforms, but also includes product innovation, branding, service quality improvement, digital payment adoption, marketplace utilization, customer relationship management, human resource capability development, and employee loyalty strengthening.

At the national level, SMEs have a strategic role in supporting economic growth and employment absorption. At the provincial level, Bali has a strong SME base that contributes to local economic activities. Meanwhile, in Denpasar City, the large number of SMEs, especially in culinary, fashion, agribusiness, and service-related sectors, creates a competitive business environment. This condition requires SME actors to strengthen their ability to use digital technology, improve business management, and maintain loyal employees who can support operational continuity and service consistency.

The high level of mobile phone ownership, internet use, and social media use in Denpasar provides significant opportunities for SMEs to expand their market reach through digital channels. Social media, marketplaces, online delivery services, and digital payment systems can help SMEs increase product visibility, simplify transactions, and build closer relationships with customers. However, digital tools will only provide optimal benefits when supported by creativity, consistency, digital literacy, good managerial capability, and employee commitment in implementing digital business practices.

The study also shows that competitiveness in the digital economy era depends on the ability of SMEs to combine internal strengths with external opportunities. Based on the Resource-Based View, SMEs can improve competitiveness by utilizing valuable resources such as product uniqueness, local identity, customer relationships, brand reputation, digital capability, and employee loyalty. Meanwhile, Dynamic Capability Theory explains that SMEs need to continuously adapt, learn, innovate, and transform their business practices in response to digital economic changes. In this process, loyal employees can support SMEs by maintaining service

quality, adapting to new digital tools, strengthening customer relationships, and reducing operational disruption.

Overall, SMEs in Denpasar City need comprehensive adaptation strategies to survive and grow in the digital economy era. Digital adaptation should not be understood merely as the use of technology, but as an integrated business strategy that connects innovation, marketing, service quality, customer engagement, employee loyalty, and sustainable competitiveness. Therefore, employee loyalty can be positioned as an internal supporting factor that strengthens SME competitiveness without changing the main focus of this study.

5.2 Limitation

This study has several limitations. First, the study focuses only on SMEs in Denpasar City, so the findings may not fully represent SMEs in other regions with different economic, social, cultural, and technological characteristics. SMEs in rural areas or other cities may face different challenges in terms of digital access, consumer behavior, market structure, business support systems, and human resource conditions.

Second, this study uses a qualitative descriptive approach based on secondary data analysis, which emphasizes interpretation and in-depth understanding rather than statistical measurement. Therefore, the findings cannot be generalized broadly to all SMEs. Future research may use quantitative methods to measure the influence of digital adaptation strategies on SME competitiveness using larger samples and statistical analysis. Future research may also examine the relationship between employee loyalty and SME competitiveness more directly through surveys or field interviews.

Third, the study focuses on adaptation strategies in the digital economy era, particularly digital marketing, marketplace utilization, digital payment, product innovation, branding, service quality, employee loyalty, and competitiveness. Other factors that may influence SME competitiveness, such as access to financing, government policy, supply chain management, entrepreneurial orientation, human resource capability, business legality, employee satisfaction, leadership style, and organizational commitment, have not been examined in depth.

Fourth, the data used in this study depend on the availability of secondary data and information from previous sources. Some SMEs may not have complete business records, especially regarding digital sales, customer data, transaction volume, marketing performance, employee retention, employee loyalty, and internal human resource practices. This limitation may affect the depth of analysis related to the impact of digital adaptation and employee loyalty on SME competitiveness.

Based on these limitations, future studies are recommended to involve a larger number of SMEs from various business sectors and regions. Future research can also combine qualitative and quantitative approaches to obtain more comprehensive findings. In addition, further studies may examine the role of government support, digital literacy training, financial access,

technology-based innovation, employee loyalty, employee training, and human resource management in strengthening SME competitiveness in the digital economy era.

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