

Adaptation and Innovation: Rejomulyo Fashion MSMEs's Strategy in Facing Competition in the Free Trade Era

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ABSTRAK

This study aims to analyze the adaptation and innovation strategies implemented by fashion MSMEs in Rejomulyo, Kediri City, in facing competition in the free trade era. With a qualitative approach and a single case study, data were collected through in-depth interviews, participant observation, and document analysis. The results of the study indicate that MSMEs adapt in the form of product diversification and customization, although they are still reactive due to limited capital and information. Product innovation is carried out by combining traditional motifs and modern designs, as well as the use of alternative raw materials. However, process and marketing innovation is still limited, and the organizational structure of MSMEs tends to be informal. The main supporting factors are entrepreneurial spirit and local communities, while the obstacles include access to information, capital, and HR skills. This study strengthens the theory of dynamic capabilities and provides practical implications for the development of MSME strategies and government policies.

Keywords: MSMEs, Free Trade Era, Product Innovation

1. INTRODUCTION

1.1. The Context of Rejomulyo Fashion MSMEs and Competition in the Free Trade Era

Fashion MSMEs in Rejomulyo, Kediri City, East Java, are the backbone of the local economy (Yolanda, 2024). They are micro, small, and medium enterprises engaged in the production of clothing, accessories, and other fashion products, the majority of which are managed traditionally and hereditarily (Hendratmoko, 2023). The existence of these MSMEs not only creates jobs but also preserves local cultural heritage through regional motifs and designs. However, in the increasingly competitive era of free trade, Rejomulyo fashion MSMEs face significant challenges. The rapidly growing fashion industry demands more than just creativity and innovation. MSMEs must be able to adapt to regulatory changes, understand dynamic market preferences, and meet increasingly high product quality standards. Access to technology, capital, and global marketing networks are crucial factors determining competitiveness in an increasingly open market. The reality on the ground shows that many MSMEs in Rejomulyo still face obstacles such as limited capital, minimal knowledge of the international market, and lack of access to modern technology (Ayodyadana et al., 2024). This condition raises a fundamental question: How ready are Rejomulyo fashion MSMEs to face competition in the free trade era?

1.2. Identification of Problems and Urgency of Research

Rejomulyo fashion MSMEs face crucial problems related to their readiness to compete in the era of free trade (Tambunan, 2022). Limited capital, minimal knowledge of international markets, and limited access to modern technology are the main obstacles. This condition raises serious concerns about their ability to survive and thrive amidst increasingly fierce competition. This study is urgent because it aims to comprehensively analyze the readiness of Rejomulyo fashion MSMEs in facing the challenges of free trade. This analysis covers vital aspects such as capital readiness, understanding of international trade regulations, technology adoption, and the effectiveness of marketing strategies (Anatan & Nur, 2023). The results of the study are expected to provide a clear picture of the real conditions of MSMEs, identify gaps, and offer strategic recommendations to increase their competitiveness in the global market (Young, 2025).

1.3. Brief Literature Review: Adaptation, Innovation, and Free Trade

In a dynamic business context, adaptation theory emphasizes the importance of dynamic capabilities and innovation to achieve competitive advantage (Soeparto, 2021). Dynamic capabilities enable MSMEs to sense market changes and integrate new knowledge into their operations, including the adoption of digital technologies such as e-commerce (Christanti & Chandra Jatiputra, 2023). Innovation, especially in product development, service personalization, and customer interaction strategies, has been shown to increase customer loyalty and create added value.

Free trade presents opportunities and challenges for MSMEs. On the one hand, it opens access to a wider market and increases export potential. On the other hand, it increases competition and requires MSMEs to improve product quality and operational efficiency. The government plays an important role in facilitating MSME adaptation through policies that support exports, provide incentives, and protect domestic industries from the negative impacts of imports. MSMEs that are able to adapt and innovate will be better prepared to face competition and take advantage of opportunities in the free trade era.

1.4. Research Objectives and Questions

This study aims to analyze the adaptation and innovation strategies implemented by fashion SMEs in Rejomulyo in facing competition in the free trade era. This objective will be achieved by answering the following research questions:

- What adaptation strategies are implemented by Rejomulyo fashion SMEs in facing competition in the free trade era?
- What innovations are implemented by Rejomulyo fashion SMEs to increase their competitiveness?
- How effective are these adaptation and innovation strategies in helping Rejomulyo fashion SMEs survive and thrive in the free trade era?

1.5. Research Contribution

This study provides theoretical contributions by deepening the understanding of the adaptation and innovation strategies of fashion MSMEs in facing competition. Practically, the results of the study can be a guide for Rejomulyo fashion MSMEs in formulating more effective strategies, as well as providing input for the government in designing policies that support the development of MSMEs. In addition, this study can be a reference for other researchers who are interested in similar topics.

2. RESEARCH METHODS

2.1. Research Approach and Rationalization

This study uses a qualitative approach with a case study method (Amalia et al., 2025). The qualitative approach was chosen because it aims to deeply understand the adaptation and innovation strategies implemented by Rejomulyo fashion MSMEs in facing competition in the era of free trade. This approach allows researchers to explore the meaning, experience, and perspectives of MSME actors (Hiola & Bulkis, 2025), which cannot be measured quantitatively. The case study was chosen because it allows researchers to focus on the specific context of Rejomulyo fashion MSMEs, understand the complexity of the interaction between various factors that influence adaptation and innovation, and produce a holistic understanding. With this approach, researchers can obtain rich and in-depth data through in-depth interviews, observations, and document analysis (Ramandha & Mansah, 2025).

2.2. Research Design (Case Study) and Research Location

This study uses a single case study design with an exploratory approach. The focus of the study is on fashion SMEs in Rejomulyo, Kediri City (Gustiawan & Satriyono, 2022). This location was chosen because Rejomulyo is a center of the home fashion industry that has a long history and faces intense competition in the era of free trade.

A single case study was chosen because it allows researchers to explore in depth the adaptation and innovation strategies implemented by fashion SMEs in Rejomulyo, as well as understand the complexity of the factors that influence their competitiveness.

2.3. Research Participants/Informants and Selection Criteria

Participants in this study were owners and/or managers of fashion MSMEs in Rejomulyo, as well as the head of the Rejomulyo MSME association. The criteria for selecting participants were based on:

- Having at least 3 years of experience in managing fashion MSMEs in Rejomulyo.
- Being directly involved in decision-making related to adaptation and innovation strategies.
- Willing to provide honest and open information about their experiences.

The selection of the head of the MSME association aims to obtain information about the overall condition of Rejomulyo fashion MSMEs and the role of the association in supporting adaptation and innovation.

2.4. Data Collection Techniques

Data were collected through in-depth interviews with MSME owners/managers and association leaders, participant observation at business premises, and document analysis (Afni et al., 2024). In-depth interviews aimed to explore the adaptation and innovation strategies implemented by MSMEs in facing competition. Questions included: (1) How do MSMEs identify and respond to market changes? (2) What innovations have been made? (3) How do these innovations affect MSME competitiveness? Participatory observation was conducted to directly observe the adaptation and innovation process, interactions between employees, and use of resources (Atmaja & Novitaningtyas, 2021). The focus of observation included: (1) Changes in in-store/production layout; (2) Implementation of new ideas; and (3) Utilization of technology. Documents collected included MSME profiles, marketing materials, innovation records (if any), and product documentation. Document analysis aimed to validate information from interviews and observations, as well as provide additional context regarding MSME adaptation and innovation strategies.

2.5. Data Analysis Techniques

The data were analyzed using thematic analysis, a method for identifying patterns of meaning (themes) in qualitative data. The process includes data familiarization, initial coding, theme search, theme review, theme definition, and report preparation (Sitasari, 2022). For example, possible themes that may emerge are "Product Adaptation Through the Utilization of Social Media" or "Local Wisdom-Based Design.

Innovation". Data validation was carried out through data triangulation (interviews, observations, documentation), member checking with participants, and rich descriptions to provide in-depth context. In addition, an audit trail was conducted to ensure the reliability of the analysis process and discussions with fellow researchers (peer debriefing) to reduce bias (Husnullail et al., 2024).

3. RESULTS AND DISCUSSIONS

3.1. Brief Profile of Rejomulyo Fashion MSMES

Fashion SMEs in Rejomulyo are an important part of the local economy of Kediri City. Generally small to medium scale, these SMEs produce a variety of fashion products such as ready-to-wear clothing, textiles, and accessories. The production process varies from home to the use of modern equipment. Marketing is done through direct sales, local markets, and social media. The distinctive characteristics of Rejomulyo fashion SMEs are the potential use of local cultural motifs and handicraft skills, although adaptation to market trends and access to a wider market are still challenges.

3.2. Research Results: Adaptation Strategies Implemented by MSMEs

3.2.1. Product Adaptation

Product adaptation is crucial for Rejomulyo fashion MSMEs. Diversification is seen in MSMES owned by Lilik Purwati (JL. Ronggomulyo 10) which initially focused on batik, now expanding into casual clothing and accessories such as bags and headscarves. This diversification is driven by changing market demand and the desire to reach a wider range of consumers, especially the younger generation who are looking for alternatives to traditional batik.

Customization is implemented by MSMES Handayani (Jln Sunan Ampel Gang 1) through a made-to-order service. Customers are free to choose the design, size, and material. This strategy is effective in building personal closeness and loyalty because consumers feel that the product is made especially for them. However, product adaptation is often reactive, not proactive, due to limited capital. MSMEs tend to wait for orders to come in before making product changes.

3.2.2. Marketing Adaptation

The marketing adaptation of Rejomulyo fashion MSMEs is still limited. The majority have not optimally utilized social media and e-commerce due to their limited ability to operate gadgets, especially for MSMEs over 40 years old. However, some adaptations are still carried out. Utilization of WhatsApp status features and sharing to WhatsApp groups is a mainstay of promotion. Some MSMEs are helped by teenagers who promote products on Instagram. However, 95% of MSMEs have not utilized e-commerce due to operational constraints on gadgets. Marketing adaptation relies more on conventional methods and the use of very simple social media.

3.2.3. Adaptation of Production Process

The adaptation of the production process in Rejomulyo fashion MSMEs is relatively minimal. Most still rely on manual methods with the help of simple sewing machines. However, some MSMEs have begun to try to increase efficiency by arranging the layout of the workspace so that the production flow is smoother. In addition, some have tried to use simple applications on smartphones to record orders and manage raw material inventory, although it is not yet optimal. The use of modern technology in the production process is still very limited.

3.2.4. Management Adaptation

Management adaptation in Rejomulyo fashion MSMEs also faces many obstacles. Partnerships are still rarely carried out due to limited resources and lack of networks. Human resource development is also constrained by budget and lack of awareness of the importance of investing in employees. However, some MSMEs are trying to improve product quality by participating in short training held by the local industry office. In addition, there are also those who establish informal relationships with raw material suppliers to get better prices and information on the latest trends.

3.3. Research Results: Innovations Carried Out by MSMEs

3.3.1. Product Innovation

Product innovation in Rejomulyo fashion MSMEs is realized despite limited access to information. MSMEs owned by Muh Ikhfanur Rozikin (JL. Sunan Ampel I RT 3 RW 1) innovates by combining traditional batik motifs with modern designs. He uses a simplified "Sekar Jagad" motif and applies it to dresses and shirts with a more contemporary A-line silhouette. Rozikin also experiments with natural dyes from mango skin waste, producing a unique and environmentally friendly brown color.

MSMEs Ike Setyowati (JL. SMA 6) creates functional knitwear such as laptop bags and cellphone wallets inspired by local ikat weaving. She modifies traditional knitting techniques to produce a texture that resembles ikat weaving, creating unique products with high sales value. Limited access to information is overcome by exchanging knowledge between MSMEs and interacting directly with customers to get feedback.

3.3.2. Process Innovation

Process innovation in Rejomulyo fashion MSMEs is still limited. The majority still rely on traditional methods because the production volume is not yet large. However, several MSMEs have started to try new production techniques to increase efficiency. For example, MSMEs "Batik Kenanga" uses the ecoprint technique to produce batik motifs that are faster and more environmentally friendly than traditional batik

writing techniques. In addition, several MSMEs have started to utilize modern sewing machines that have more sophisticated features, such as overlock sewing machines and embroidery sewing machines. The use of these machines helps speed up the production process and improve the quality of the stitches. Although not yet fully automated, these small steps show that there are efforts to innovate in the production process.

3.3.3. Marketing Innovation

Marketing innovation in Rejomulyo fashion MSMEs is still minimal. The majority do not have a strong logo or brand. Promotion relies more on MSMEs exhibition invitations or recommendations from related agencies. However, several MSMEs have begun to try to create creative promotions by utilizing attractive product photos on WhatsApp status or providing special discounts for customers who follow their social media accounts. This effort shows an awareness of innovation in marketing, although it is still in the early stages.

3.3.4. Organizational Innovation

Organizational innovation in Rejomulyo fashion MSMEs is generally informal. Organizational structures are rarely clearly defined because businesses are often managed by families, especially housewives assisted by their husbands. However, flexibility in the division of tasks allows for quick adaptation to changes in orders or market demand. Some MSMEs also collaborate informally with neighbors or friends to fulfill large orders, indicating organizational innovation in the form of adaptive work networks.

3.4. Discussion: Effectiveness of Adaptation and Innovation Strategies in Facing Competition

3.4.1. Analysis of Supporting and Inhibiting Factors

The effectiveness of adaptation and innovation of Rejomulyo fashion MSMEs is supported by the strength of the community and entrepreneurial spirit. Community meetings in Sumber Jiput are a place to share ideas and support. MSME actors show creativity in limitations, for example by utilizing waste as raw materials

However, adaptation and innovation are hampered by limited access to information, capital, and human resource skills. Access to global fashion trends and modern production technology is still minimal. Limited capital makes it difficult to invest in new equipment. Digital marketing skills are also lacking, making it difficult to compete in a wider market. The small scale of production makes the cost per unit higher.

3.4.2. Comparison with Previous Theories and Research

The findings of this study indicate that the adaptation and innovation strategies of Rejomulyo fashion MSMEs are relevant to the dynamic capability theory (Teece, 2007), which emphasizes the ability of organizations to sense change, take advantage of opportunities, and reconfigure resources. Rejomulyo MSMEs demonstrate the ability to sense market changes through interactions with customers. They take advantage of opportunities with design and raw material innovations. However, resource reconfiguration is still limited due to limited capital and human resources

Compared to research on MSME strategies in facing competition in the digital era, Rejomulyo MSMEs show slower technology adoption. (Susanto et al., 2024) found that MSMEs that Adaptation and Innovation: Rejomulyo Fashion MSMEs' Strategy in Facing Competition in the Free Trade Era utilize digital platforms effectively to increase market reach and operational efficiency. Limited access to information and infrastructure may be the cause of slower technology adoption in Rejomulyo. However, the spirit of entrepreneurship and local collaboration are differentiating factors that strengthen the competitiveness of Rejomulyo's MSMEs, in line with research findings on the role of social capital in MSME innovation.

4. CONCLUSION

4.1 Conclusion

This study aims to analyze the adaptation and innovation strategies of Rejomulyo fashion MSMEs in facing competition in the free trade era. The results of the study indicate that MSMEs has made various adaptation and innovation efforts, although with limitations.

4.2 Summary of Key Findings

Common adaptation strategies include product diversification and customization, although these are often reactive due to limited capital and information. Product innovation involves combining traditional motifs with modern designs and utilizing alternative raw materials. Process innovation is limited, despite efforts to use new production techniques and modern sewing machines. Marketing innovation is also minimal, with promotions relying on conventional methods and simple social media. Organizational innovation is generally informal, with flexible structures and collaboration between MSMEs.

4.3 Theoretical and Practical Implications

Theoretically, this study strengthens the dynamic capability theory Teece by showing that the ability to sense market changes and take advantage of opportunities is important for the competitiveness of MSMEs. However, this study also highlights the importance of contextual factors (capital, human resources, access to information) that influence the ability to reconfigure resources.

Practically, this study provides guidance for Rejomulyo MSMEs to improve adaptation and innovation. MSMEs need to be proactive in seeking market information, improving human resource skills, and establishing strategic partnerships. The government can provide support through training, mentoring, and access to resources.

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