

Business Innovation Strategies for SMEs in Welcoming the New Year: The Perspective of Generation Z as the Main Market

Tusriyanto^{1*}, Ahmad Yani², Sonny Santosa³

¹Institut Agama Islam Negeri Metro, Indonesia

²Sekolah Tinggi Manajemen LABORA, Indonesia

³Universitas Buddhi Dharma, Indonesia

Email: tusriyanto@metrouniv.ac.id¹, ahmad_yani@labora.ac.id², snsantosa@gmail.com³

Abstract. This study aims to analyze business innovation strategies for SMEs in welcoming the New Year, with a focus on Generation Z as the primary market. The research employs a qualitative approach using a literature review method, drawing data from scientific articles published between 2010 and 2024 obtained through Google Scholar. Out of 30 articles found, 20 were selected after a rigorous screening process. The analysis shows that Generation Z prefers digital-based innovation, sustainability, personalization, and optimal customer experiences. Case studies of SMEs such as ShopatMaple, TanamKita, and Kopi Kenangan demonstrate that digital marketing strategies, collaborations with influencers, and the reinforcement of sustainability values can enhance SMEs' competitiveness and customer loyalty. This study contributes to understanding how SMEs can leverage the New Year's momentum to create innovations that meet the needs of the Generation Z market.

Keywords: Business Innovation, SMEs, Generation Z, Marketing Strategy, New Year

1. Introduction

SMEs play a crucial role in Indonesia's economy as a primary source of employment and a significant contributor to the Gross Domestic Product (GDP). According to data from the Ministry of Cooperatives and SMEs, SMEs contribute more than 60% to Indonesia's GDP and create over 90% of jobs across various sectors [1]. However, in the face of rapid change, particularly as the New Year approaches, SMEs need adaptive business innovation strategies. The New Year often serves as a momentum for SMEs to enhance their competitiveness through new product launches, service updates, or the adoption of technology. This is particularly relevant as market needs and preferences continue to evolve, especially with the dominance of Generation Z as a growing segment in today's digital economy.

Generation Z, born between 1997 and 2012, possesses unique characteristics distinct from previous generations. Known as digital natives, they heavily rely on technology in daily life, including for purchasing decisions. Studies show that over 80% of Generation Z conduct online research before making purchases, making digital innovation in marketing and distribution crucial [2]. SMEs that can address the needs of this generation through technology-based strategies, such as utilizing social media, e-commerce, and mobile applications, have greater opportunities to reach broader markets and secure high customer loyalty.

In addition to technology adaptation, Generation Z also values sustainability, inclusivity, and personalization [3]. For SMEs, this means that business innovation strategies should include the development of environmentally friendly products, ethical business practices, and marketing approaches that are personal and aligned with their lifestyle. Thus, the New Year presents an opportunity for SMEs to identify and implement innovations that align with the market trends dominated by Generation Z. However, challenges such as limited resources and technology access often hinder SMEs' ability to adapt quickly.

Business innovation must also consider local cultural factors, which remain a key attraction in SME products. Generation Z is interested in products with authentic cultural stories or values, but presented in a modern and globally relevant way [4]. Therefore, business innovation strategies should blend traditional elements with contemporary approaches to meet the expectations of this market. Furthermore, collaborations

with local and global influencers can serve as effective marketing strategies to reach Generation Z, who often rely on recommendations from trusted figures.

Moreover, the New Year period is typically accompanied by increased consumption activity, creating new business opportunities. SMEs can leverage this moment to run intensive promotional campaigns, such as special New Year discounts, bundling packages, or limited-edition product launches. However, to ensure the effectiveness of these strategies, a deep understanding of Generation Z's consumption behavior, including timing, product preferences, and the digital platforms they frequent, is needed. Analytics-based data can serve as a crucial guide in developing targeted and relevant marketing strategies [5].

Generation Z also has high expectations regarding customer experiences, both online and offline [6]. SMEs must ensure that their business innovation strategies include enhancing service quality, from response speed to delivery reliability. Technologies such as AI-based chatbots, flexible digital payment systems, and creative product packaging can enhance the customer experience, thereby driving satisfaction and loyalty. In this context, SMEs need to allocate their resources strategically to create superior customer experiences.

Given the challenges and opportunities, SMEs must also focus on strengthening the business ecosystem through collaboration. The government, digital platforms, and entrepreneurial communities play a strategic role in supporting SMEs in developing their business innovations. Support in the form of technology training, access to funding, and policies that foster innovation are vital for ensuring the sustainability of SMEs amidst increasingly fierce competition. SMEs can confidently face the New Year with relevant innovation strategies with this collaboration.

This study aims to examine the business innovation strategies of SMEs in welcoming the New Year from the perspective of Generation Z as the primary market. The research focuses on identifying effective innovation strategies in responding to the needs and preferences of Generation Z, considering the challenges and opportunities SMEs face in the process. Thus, this study is expected to contribute to the development of literature on business innovation strategies for SMEs while providing practical guidance for SME practitioners in addressing the increasingly dynamic market changes.

1.1. Business Innovation

Business innovation refers to the process of creating, developing, or adapting new ideas that result in better products, services, or operational methods [7]. In the context of SMEs (Small and Medium Enterprises), business innovation often involves the application of new technologies, the development of more efficient business models, or adjustments to products to meet market needs. This innovation is crucial to maintaining competitiveness, especially when facing dynamic market challenges, such as changing customer preferences and increasing competition.

1.2. Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) are the backbone of many economies, including Indonesia, due to their significant contributions to job creation and Gross Domestic Product (GDP) [8], [9]. SMEs are characterized by flexibility and high adaptability, but they often face challenges such as limited capital, market access, and technology adoption. Despite these challenges, SMEs have great potential for growth through the implementation of innovative strategies and collaborations with various stakeholders, such as the government and the private sector.

1.3. Generation Z

Generation Z is a demographic group born between 1997 and 2012, known as the first generation to grow up entirely in the digital era [10]. Their characteristics include a high dependence on technology, a preference for sustainability, and an appreciation for personalization in products or services. In the business context, Generation Z is an important market segment due to its influence on consumer trends and purchasing decisions, especially through their activities on social media and digital platforms.

1.4. Marketing Strategy

A marketing strategy is a plan designed by a business to promote its products or services to customers in an effective and efficient manner [11], [12]. This strategy includes elements such as market segmentation, brand positioning, and the selection of distribution channels. In the digital era, marketing strategies also involve the use of social media, e-commerce, and data analytics to understand consumer behavior and create more relevant campaigns. A well-crafted marketing strategy can help SMEs build strong brands and achieve sales growth.

1.5. New Year

New Year is a moment often used by businesses to boost sales through product launches, promotions, or special campaigns [13], [14]. During this time, consumer spending tends to increase, making it a strategic time for SMEs to attract customers by offering innovations or appealing discounts. Moreover, New Year is also often a symbol of change and hope, which can be used as a marketing theme to connect products with consumers' future aspirations.

2. Method

This research adopts a literature review approach using qualitative methods to explore and analyze business innovation strategies of SMEs in welcoming the New Year from the perspective of Generation Z as the primary market. The qualitative approach was chosen to deeply explore phenomena and patterns relevant to the needs and preferences of Generation Z and SMEs' efforts to adapt to market changes. Descriptive analysis is used in this study to present the results of data synthesis systematically, thoroughly, and focused on the research topic, providing an in-depth understanding of the phenomenon under study. The data in this research were obtained from scientific articles available on Google Scholar, covering the publication period from 2010 to 2024. Google Scholar was chosen as the primary data source due to the availability of credible and relevant academic articles on the research topic. The data collection process began with searching for articles using relevant keywords such as "SME business innovation strategies," "Generation Z," "New Year," and "digital marketing for SMEs." A total of 30 articles were found in the initial search that met the general criteria for the research. Subsequently, a strict selection process was carried out to ensure that the articles used were relevant and of high quality. The selection process included evaluating the abstract, methodology, results, and the article's relevance to the research objectives. The selection criteria included (1) the article must focus on SMEs, (2) it must address business innovation or marketing strategies relevant to Generation Z, (3) it should use data or context appropriate for the 2020-2024 period, and (4) it should have clear methodology and analysis. After the selection process, 20 articles were chosen as the primary sources for analysis. Data analysis was conducted in systematic steps: (1) reading and understanding the content of each article to identify key findings, (2) grouping the findings by themes or categories such as technology-based innovation, Generation Z preferences, digital marketing strategies, and SME challenges, and (3) synthesizing the findings into a structured and in-depth narrative. This analysis aims to provide a comprehensive understanding of business innovation strategies in SMEs that align with the needs of Generation Z.

3. Result and Discussion

SME business innovation strategies are pivotal to success in navigating market dynamics, particularly during the New Year when consumer spending significantly increases, with Generation Z emerging as the dominant market segment characterized by a demand for innovation, speed, and digital connectivity [15]. In this context, adopting technologies such as e-commerce and social media becomes an essential strategy to broaden reach and enhance competitiveness. For instance, ShopatMaple, a local fashion SME in Yogyakarta, achieved a 50% sales increase ahead of New Year 2023 by launching a limited-edition collection on Instagram, utilizing the countdown sale feature. This approach captured Generation Z's attention by combining exclusivity and time-based urgency, creating a shopping experience aligned with their digital preferences.

Generation Z's strong preference for eco-friendly and sustainability-based products presents a strategic opportunity for SMEs to build competitiveness by integrating sustainability values into their products and operations. For example, TanamKita, a Bandung-based SME specializing in plants, adopted biodegradable packaging for all its products. This innovative move demonstrated environmental commitment and leveraged social media through the #HijauUntukTahunBaru campaign, effectively increasing brand awareness, expanding market reach, and attracting environmentally conscious Generation Z consumers. This highlights that an environmentally-focused approach can serve as a significant differentiator in the increasingly competitive SME landscape.

Personalization plays a critical role in SME innovation strategies to attract Generation Z, known for their preference for customizable products and services. Kopi Kenangan, an SME in the beverage sector, illustrates this by leveraging a digital application to create unique and personalized customer experiences [16]. Through the app, customers can adjust sugar levels or add-ons to their drinks, integrated with a loyalty program to strengthen customer relationships. Its "Kenangan Baru di Tahun Baru" campaign offered personalized discounts for loyal customers, increasing daily transactions by 20% and proving that personalization-based approaches boost customer retention and drive significant revenue growth by meeting Generation Z's expectations for responsive and relevant services.

Digital innovation through the adoption of advanced technology is a cornerstone of SME success in engaging Generation Z, who heavily rely on technological ease and speed in their shopping experiences. Warung Pintar, for example, supports traditional shop transformation by providing access to digital payment systems and app-based inventory management [17]. This enables its partner SMEs to improve operational efficiency, optimize stock management, and accelerate customer service, especially during busy periods like New Year, when the demand for seamless and fast services surges. This demonstrates that digitalization not only enhances operational performance but also strengthens brand appeal among Generation Z, who prioritize convenience and technology integration in every interaction.

The New Year presents an excellent opportunity for SMEs to build strategic collaborations with local influencers to expand market reach [18], particularly as Generation Z tends to trust recommendations from social media figures they follow. For instance, Aroma Nusantara, a local perfume producer in Surabaya, utilized the influence of beauty influencers for its "Aroma Baru untuk Tahun Baru" campaign, promoting its newest product line. This effort drove a 30% increase in sales within the first week of the launch, demonstrating how such collaborations directly impact sales while reinforcing brand image among younger consumers. Moreover, it strengthens the emotional connection between the brand and Generation Z through the influence of trusted figures.

Despite the many opportunities that technological innovation offers, significant challenges remain for SMEs, especially those in traditional sectors that often face resource and knowledge limitations in adopting new technologies. Addressing these barriers requires external support through training and mentoring from government bodies or digital platforms. One success story is the GoDigital program by the Ministry of Cooperatives and SMEs, which helped various SMEs enhance their digital capabilities. For example, Batik Citra, an SME in Pekalongan, leveraged e-commerce training to significantly increase its product exposure, enabling it to compete with larger brands during the New Year season [19]. Such programs provide practical knowledge in digital marketing and lay the foundation for SMEs to enhance their competitiveness in a technology-driven market.

In addition to product and marketing innovations, customer experience is a crucial factor for SMEs, especially in attracting Generation Z, who view shopping experiences as integral to their purchasing decisions. Ayam Geprek Benu, for instance, implemented chatbot technology to deliver quick and efficient customer service, including order processing and complaint handling. This innovation, introduced in late 2022, successfully improved customer satisfaction, particularly among Generation Z, who value responsiveness and ease of digital interactions in every transaction [20]. Ayam Geprek Benu increased its operational efficiency and built customer loyalty by integrating this technology, appealing to a younger audience accustomed to digital-based interactions.

Based on the discussed case studies, it can be concluded that successful SME business innovation strategies are those capable of integrating digitalization, sustainability, personalization, and customer experience in a balanced manner. Generation Z, as the primary market, seeks convenience through technology and prioritizes values such as sustainability and relevant experiences. SMEs must adopt creative and technology-based approaches while being sensitive to the values appreciated by this generation, as exemplified by TanamKita's biodegradable packaging and Ayam Geprek Benu's chatbot services. To create relevant innovations for the New Year, SMEs need to design strategies that incorporate current market trends, deeply understand customer characteristics, and gain support from an inclusive business ecosystem that facilitates these transformations, enabling them to compete effectively in an ever-evolving market.

4. Conclusion

This study concludes that the business innovation strategy of SMEs in welcoming the New Year, with a focus on Generation Z as the primary market, must encompass digitalization, sustainability, personalization, and enhanced customer experience. Generation Z, as a tech-savvy and sustainability-conscious segment, demands that SMEs innovate through digital marketing, advanced technology use, and creating product value that aligns with their trends and preferences. The case studies presented show that targeted innovation can enhance the competitiveness of SMEs and yield significant results in terms of sales and customer loyalty.

The findings of this research have important implications for SMEs, the government, and technology platforms. SMEs need to be more proactive in integrating technology-based strategies to reach Generation Z, while the government and technology providers should increase support through digital training and business mentoring. Furthermore, strengthening collaboration between SMEs and local influencers can create an effective synergy in enhancing the appeal of SME products in the Generation Z market.

SMEs are advised to leverage the New Year as a strategic moment to launch product innovations or marketing campaigns that are relevant to the characteristics of Generation Z. The government is also encouraged to expand inclusive digital training programs to all regions, while educational institutions can play a role in providing technology-based entrepreneurship training to the younger generation. Future research should further explore the specific influence of factors such as regional differences or industry sectors on the success of SME innovation strategies.

This study has limitations in using secondary data from academic articles obtained through Google Scholar, which does not include insights from primary data or direct experiences of SME practitioners. Additionally, the study is focused on the 2010-2024 period, not considering market dynamics before or after this period. These limitations can be addressed through further research involving primary data and a longer analysis timeframe.

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