



Expansion of Local Micro, Small and Medium Enterprises (MSMEs) Market Through the Development of Tourism Villages

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Abstract. *This study discusses the strategy of expanding the local Micro, Small, and Medium Enterprises (MSMEs) market through the development of Tourism Villages as a solution to limited market access and low competitiveness of MSME actors. MSMEs in Indonesia often face obstacles in aspects of the marketing mix such as venues, prices, products, and promotions. Through a qualitative approach, this study analyzes the direct impact of Tourism Villages on increasing market access, product innovation, and the role of innovation diffusion in encouraging technology adoption by MSME actors. The results of the study show that Tourism Villages such as Pujon Kidul, Taman Sari, and Sokobanah Daya are able to become a catalyst for the local economy by attracting tourists as potential consumers, reducing operational costs, and creating an innovation ecosystem that supports the growth of MSMEs. BUMDes (Village-Owned Enterprises) play an important role in digital promotion, product packaging development, and strengthening the capacity of local business actors through training and mentoring programs. Moreover, Tourism Villages encourage collaboration between stakeholders such as village governments, educational institutions, and private sectors in building sustainable local entrepreneurship. They also facilitate knowledge sharing and cultural preservation while integrating economic, social, and environmental values. Although there are still challenges such as lack of managerial skills, limited access to capital, and dependence on tourism seasons, the potential for long-term impact remains high. This study concludes that the integration of Tourism Village development with MSME strengthening strategies can be a model for inclusive and sustainable village economic empowerment. These findings provide practical recommendations for village governments, BUMDes managers, and MSME actors in building effective synergies that accelerate local economic growth and resilience.*

Keywords: *Economic Empowerment, Innovation Diffusion, Local MSMEs, Market Expansion, Tourism Villages.*

1. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play an important role in the local economy, especially in creating jobs and improving community welfare (Satriaji Vinatra, 2023). However, despite having great potential, many local MSME actors face difficulties in developing their businesses, some even experience failure or bankruptcy. One of the main causes of this problem is their inability to compete in an increasingly competitive market, whether on a local, regional, national, and global scale. Basically, this market full of competition requires MSME actors to have a competitive advantage that not only includes product quality, but also other aspects such as place, price, and effective promotion (Putri Salsabila Indrawan Lubis & Rofila Salsabila, 2024). However, most local MSME actors in Indonesia have difficulty facing this challenge.

Some of the main problems faced by local MSME actors are related to the four main elements in the marketing mix theory, namely place, price, product, and promotion. First, the problem of place or place is a big obstacle for local MSMEs. Many MSME actors are unable to provide strategic and marketable places, so they have difficulty reaching a wider range of

consumers (Febrianti et al., 2023). Second, the problem of price is also a big challenge for MSME actors. This high-cost distribution process causes the price of their products to be more expensive (Roy'an & Rohman, 2021). As a result, their products are difficult to compete with similar products that are cheaper than competitors in the larger market.

Third, product or product problems are also one of the obstacles in the development of local MSMEs. Many MSMEs are unable to keep up with consumer needs for quality products. This is due to the weak innovation and diffusion of technology in production, so that the products produced are unable to meet increasingly high consumer expectations (Hakim et al., 2025). Fourth, the issue of promotion is no less important challenge. Many MSME actors still rely on traditional promotion, namely word of mouth, which is only limited to the market around their business location (Pratama et al., 2024). Therefore, their market is limited to a very narrow area, and they cannot take advantage of the wider market potential.

However, in the midst of these problems, there is a great potential that can help expand the local MSME market, namely the development of Tourism Villages (DeWi). Tourism Villages can be a magnet for tourists, which will directly increase the number of markets for local products produced by MSMEs (Rahmadani & Sulanam, 2025). Every village that develops its tourism potential into an attractive tourist destination, will attract the attention of tourists who come from various regions. The better the destination developed by a tourism village, the more tourists will come, which will automatically increase the market volume for local MSME products (Zahra & Artadita, 2024). In addition, Tourism Villages can also prevent MSMEs from market saturation, because tourists who come every day and at all times are different. Thus, MSMEs do not need to rely on repeat selling with the same consumers, although this can still happen because of consumers who return to visit.

This research will examine how the development of Tourism Villages can be an effective strategy in expanding the market for local MSMEs, as well as how the theory of Diffusion of Innovations can be applied to encourage the adoption and acceptance of innovation by MSME actors in developing their products and businesses. This research is expected to provide benefits in encouraging the strengthening of local MSMEs through the strategy of developing Tourism Villages as a means of effective market expansion. By integrating the concept of marketing mix and Innovation Diffusion theory, this research not only reveals the potential to increase market access through tourist visits, but also encourages the adoption of technology and product innovation by MSME actors. In addition, the findings of this study are useful for policy makers and village managers in designing more structured and sustainable MSME empowerment programs, especially through the strategic role of

BUMDes and digital promotion. These results are expected to be an important reference in the development of the local economy based on village potential.

2. METHODS

This study uses a qualitative approach to analyze the development potential of Tourism Villages in expanding the market for local Micro, Small and Medium Enterprises (MSMEs). The qualitative approach was chosen because the nature of the problem studied is more exploratory and focuses on a deep understanding of the phenomenon that occurs in the field, namely the interaction between the development of Tourism Villages and the expansion of the local MSME market (Sugiyono, 2020). Qualitative research allows researchers to explore the perspectives and subjective experiences of various parties involved in the development of Tourism Villages and local MSMEs, such as MSME actors, village communities, Tourism Village managers, as well as policy makers involved in the management of Tourism Villages and local economic development.

The design of this research is an exploratory descriptive research, which aims to describe and understand the phenomena that occur in the field related to the development of Tourism Villages and their role in expanding the local MSME market. This research will explore various factors that affect the success of the development of Tourism Villages in supporting the expansion of the MSME market, including the challenges and opportunities faced by MSMEs in marketing their products through Tourism Villages. This research will also examine how the theory of Innovation Diffusion can be applied in the context of local MSMEs to encourage the adoption of technology and innovation in products produced by MSMEs.

The main data sources in this study are local MSME actors operating in Tourism Villages, Tourism Village managers, and village communities involved in tourism activities as well as policy makers related to the development of Tourism Villages. The data collection techniques in this study include in-depth interviews, participatory observations, and documentation studies. In-depth interviews were conducted in a semi-structured manner with MSME actors, tourism village managers, and policy makers to explore experiences, challenges, and opportunities in the development of tourism villages. Participatory observations were carried out in the field to directly understand the interaction between tourists, MSME actors, and village managers, as well as the marketing dynamics that took place. The documentation study involves the collection of documents related to the management of the Tourism Village, such as annual reports, development plans, promotional materials, and village economic regulations. The collected data were analyzed using a thematic approach, which began with

interview transcription, followed by data coding to identify important pieces of information, search for key themes, and draw conclusions that answered the research questions and provided practical recommendations. To ensure the validity and reliability of the data, triangulation techniques between methods and sources are used, strengthened by direct observation and member checking to the resource persons so that the researcher's interpretation is in accordance with the reality of the field.

This research will be carried out in several tourism villages that have developed in Indonesia, especially on the island of Madura and in the East Java region. The research location will be selected based on certain criteria, such as the level of development of the Tourism Village, the existence of local MSMEs operating in the tourist village, and the tourism potential in the village. The research is expected to last six months, which includes the preparation stage, field data collection, data analysis, and preparation of research reports. With this qualitative approach, it is hoped that this research can provide a deeper insight into the potential for the development of Tourism Villages in expanding the local MSME market as well as the challenges faced in the implementation of this strategy.

3. FINDING AND DISCUSSION

The results of the study show that the development of Tourism Villages has been proven to have a significant impact on the expansion of the local MSME market. MSMEs in the Tourism Village area have experienced an increase in the number of consumers, especially from tourists from outside the region who visit to look for local specialties such as handicrafts, culinary, and souvenirs. One of the villages that is the location of the research, Pujon Kidul, is widely known for the concept of agrotourism and *Cafe Sawah* which is the main attraction. This village has succeeded in developing local MSMEs such as processed dairy, coffee, tempeh chips, as well as homestays and tourist services. The support from the community and community-based tourism management make this village a successful example of the development of the village's creative economy. The presence of tourists encourages higher transactions, expands market reach, and creates new opportunities for MSME players to introduce their products more widely. Sokobanah Daya Tourism Village (Sampang), which is also one of the research locations, is a leading pilot tourism village with a focus on agricultural education and cattle farming. Homestay, prayer room, and tour package "Kampong Panjalin" are available complete for visitors' interactive activities—from farming to livestock farming—that provide added value for local MSMEs. Taman Sari Tourism Village (Banyuwangi) is located on the slopes of Mount Ijen, this village combines natural tourism, agricultural

education, and MSME development such as folk coffee, ecoprint batik crafts, and local processed products. The community is also active as tour guides, homestay providers, and cultural-based creative industry players. In addition, relatively low operational costs in the village environment, such as low rental costs and the use of local raw materials, also help MSMEs set competitive product prices. Not only that, the results of the study also show that the encouragement of Tourism Village managers and BUMDes is able to increase MSMEs' awareness of the importance of digital promotion and product innovation, which ultimately strengthens their competitiveness in the midst of increasingly open market competition.

1The Influence of Tourism Village Development on the Expansion of the MSME Market

One of the main findings in this study is that the development of Tourism Villages can be an effective strategy in expanding the market for local MSMEs. In this case, the Tourism Village serves as a magnet that attracts tourists, which in turn increases the volume of the MSME market operating in the area. Most of the MSMEs involved in this study operate in areas that have been developed into Tourism Villages, and they acknowledge that the presence of tourists has a significant impact on increasing sales and visibility of their products.

For example, MSMEs that sell handicraft products, typical foods, and local clothes in Desa Wisata feel that visitors who come from outside the region provide a wider market for their products. Many MSME actors report an increase in the number of customers from outside the village and even outside the city. They also noted that customers who come as tourists have different consumption behaviors from local customers, i.e. they are more open to buying local products as souvenirs or souvenirs, even though the prices are higher compared to the local market price. Tourism Villages allow MSMEs to reach a wider market, because every day there are tourists who come with diverse needs (Mijiaro et al., 2023). This provides an opportunity for MSMEs to offer their products to different consumers, thus avoiding market saturation. The diversity of markets that come to the tourism village allows MSME actors to introduce their products to a larger audience without having to rely on the same consumers.

The Economic Impact of Low Costs on Product Prices

One of the obstacles faced by local MSMEs in facing a competitive market is the high operational costs, especially related to the cost of space and labor. However, MSMEs located in Tourism Villages benefit from a low-cost economy driven by their proximity to business premises, as well as more efficient management through family businesses. These findings show that many MSMEs do not need to spend high space rental costs because they operate in an environment that has been developed as a Tourism Village. Most of these MSME actors run

their businesses at home or in the area around where they live, which of course reduces operational costs significantly.

With lower operational costs, MSMEs have greater flexibility to set more competitive prices (Kiki Septia Ihwan et al., 2024). On the other hand, they can keep prices affordable for consumers who come to visit, thereby increasing the appeal of their products. Some MSMEs also report that they not only reduce rental costs, but also reduce production costs because they can utilize local raw materials at lower prices, which further supports their ability to offer products at more competitive prices.

However, despite the advantages of low costs, some MSMEs also face challenges in terms of product prices due to transportation and distribution costs to reach a wider market, especially for products that must be marketed outside the village. Therefore, although Tourism Villages provide advantages in terms of low costs, it is important for MSME actors to find solutions that can overcome the distribution challenges that are still an obstacle in expanding their market.

Product Innovation and Technology Adoption in Product Development

One of the main challenges faced by local MSMEs in Tourism Villages is the lack of innovation in the products they offer. Many MSME actors still rely on traditional products with slight modifications, making it difficult to keep up with increasingly dynamic market trends. However, this study also found that the development of Tourism Villages can encourage MSMEs to innovate in their products, due to the increasing demand from tourists who want unique and quality local products.

Some of the MSME actors involved in this study have begun to adopt new technologies to improve the quality and attractiveness of their products. For example, MSME actors who produce handicrafts are starting to use social media and digital platforms to promote their products to a wider market. In addition, several MSME actors have also begun to use technology in the production process, such as food processing machines to improve product efficiency and quality. This shows that the development of Tourism Villages not only provides access to a larger market, but also encourages MSME actors to innovate and adopt new technologies in their production processes.

The application of *the theory of Innovation Diffusion* in the development of MSMEs in tourist villages has proven to be very relevant and has a real impact. Many MSME actors are initially hesitant about the use of new technologies and innovations, especially due to limited knowledge, resources, or concerns about change. However, through a structured and community-based diffusion process, these doubts slowly turn into adaptive spirits. Tourism

villages play an important role in this process, as they are able to provide an ecosystem of learning, sharing experiences, and driving innovation naturally (Ramadhany & Tranggono, 2023).

One of the real examples that stands out is the Pujon Kidul Tourism Village in Malang. This village has succeeded in empowering local MSME actors through digital training, product packaging education, and social media-based promotion. MSMEs such as food processors and rice field coffee shop owners are gradually starting to adopt digital technology for transactions and marketing. Through the community approach and the support of BUMDes, more than 85 residents were absorbed into the tourism ecosystem, and business actors who became *early adopters* became an example for other MSME actors. Finally, innovation spreads more widely, improving product quality, competitiveness, and revenue. Early adopters play a crucial role in the process of diffusion of innovation because they are the first to try, evaluate, and prove the benefits of such innovations in the community (Rogers, 1962). Their success is a clear example that encourages other groups to adopt it, thereby accelerating the spread of innovation more widely and effectively (Hayati, 2023).

Meanwhile, in Tamansari Tourism Village, Banyuwangi, the diffusion of innovation occurs through a more integrated approach through the "Smart Kampung" program. The launch of *the Dewitari Ijen* application, homestay management training, and digital marketing of local products such as chocolate and pottery, encourage MSMEs to not only be known locally but also reach national and even international markets. The use of this digital platform increases the confidence of small and medium business actors, encouraging them to continue to innovate according to market characteristics.

The Sokobanah Daya Tourism Village in Sampang, Madura, shows the process of diffusion of innovation that is still in its early stages but promising. With educational tourism potential such as a digital fountain attraction (*dancing water*) developed by students of Trunojoyo Madura University, as well as basic digitalization training for local MSME actors, this village has begun to build a foundation for wider technology adoption. Several business actors engaged in dairy processing and local handicrafts have begun to implement digital marketing strategies even on a small scale. Their courage to try new things in the midst of limited resources is the initial seed for the greater dissemination of innovation in the future.

From the three villages, a consistent pattern of innovation diffusion can be seen: starting from the introduction of technology by outsiders or innovators, then adopted by progressive MSME actors (*early adopters*), and finally spreading gradually to a wider group. This process shows that the development of tourist villages not only functions as an effort to preserve culture

or increase tourism, but also as an effective innovation incubator for local MSMEs (Purwito et al., 2024). The diffusion of innovation that runs well will strengthen the competitiveness of small business actors, expand market reach, and create sustainable and inclusive village economic growth.

Tourism Village Promotion Strategy and the Role of BUMDes in Supporting Local MSMEs

Promotion is one of the aspects that is a challenge for many local MSMEs, especially those located in areas that are less known by tourists (Maria et al., 2024). However, the development of Tourism Villages provides a significant solution in terms of promotion, because promotion for Tourism Villages as a whole can include promotions for MSMEs in it. This research shows that Tourism Village managers, such as Village-Owned Enterprises (BUMDes: *Badan Usaha Milik Desa*), play an important role in facilitating the promotion of local products.

BUMDes as the manager of the Tourism Village can organize promotions for all tourist destinations, including MSME businesses in the village. Some well-managed Tourism Villages have successfully leveraged various promotional channels, such as social media, village websites, and partnerships with travel agencies to attract tourists. In addition, promotional techniques carried out by tourism village managers such as festival events or local markets involving MSME products can attract more tourists and introduce local products to a larger market.

In this context, the role of Innovation Diffusion can also be seen from how BUMDes disseminate information about the importance of digital promotion and facilitate MSME actors to adopt modern and more effective promotional methods. Some MSME actors who were initially unfamiliar with digital promotion were finally able to take advantage of social media and e-commerce platforms after receiving training and support from the Tourism Village manager.

Challenges Faced by MSME Actors in the Development of Tourism Villages

Although the development of Tourism Villages offers many opportunities for local MSMEs, there are several challenges that need to be overcome. One of the main challenges is the lack of managerial and marketing skills possessed by most MSME actors. Many MSME actors have good production skills, but lack the skills to manage their businesses effectively. This includes financial management, HR management, as well as effective marketing techniques to reach a wider market. Therefore, training and mentoring for MSME actors are

very important to increase their capacity in managing their business and taking advantage of existing opportunities.

In addition, dependence on seasonal tourists is also a challenge for some MSMEs in Tourism Villages. Although many tourists come during the holiday season or weekends, there are times when the volume of tourists decreases during the low season, which leads to a decrease in sales for MSMEs. For this reason, MSMEs need to develop strategies that can maintain the sustainability of their business even outside the tourist season.

4. CONCLUSION

The development of Tourism Villages has proven to be an effective strategy in expanding the market for local MSME actors. The existence of tourists who come regularly provides dynamic and wide market opportunities for local products such as handicrafts, culinary, and regional souvenirs. Tourism villages such as Pujon Kidul, Tamansari, and Sokobanah Daya show that with community support, digital promotion, and optimal management of BUMDes, MSME actors can increase the visibility of their products, reduce operational costs, and set more competitive prices.

More than that, the process of diffusion of innovation that occurs in tourist villages shows that digital transformation and technology adoption are very possible for MSMEs with a structured and community-based approach. Early adopters play a big role in encouraging other MSME players to adopt innovations that are proven to improve quality, competitiveness, and market reach.

However, challenges such as low managerial skills, limitations in digital promotion, and dependence on the tourist season must still be overcome with training, mentoring, and market diversification strategies. Therefore, the success of the expansion of the MSME market through the Tourism Village is highly dependent on collaboration between MSME actors, the community, village governments, and BUMDes in creating an innovative, inclusive, and sustainable local economic ecosystem.

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