

## DOWNSTREAMING VILLAGE PRODUCTS TO URBAN MARKETS A Strategy for Competitive Advantage in Local MSMEs

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### Abstract

Economic globalization has intensified competition, requiring local MSMEs to adopt adaptive strategies to survive and grow. One promising approach is downstreaming village products into urban markets, which enhances value through processing, packaging, and branding while reinforcing local identity. This study explores how downstreaming contributes to MSME competitiveness by integrating product innovation, storytelling, distribution, and digital technology. Using a qualitative interpretive case study, data were collected through interviews, field observations, and documentation of rural MSMEs engaged in urban market penetration. Thematic analysis, guided by the Resource-Based View framework, reveals that downstreaming not only increases product value but also differentiates MSMEs through local identity and digital integration. Entrepreneurial competencies and education further strengthen an orientation toward innovation and adaptability. The findings suggest that MSMEs should prioritize product transformation, branding, and digital strategies, with mentoring support, to build a sustainable competitive advantage. Conceptually, the study positions downstreaming as a strategic pathway for local economic empowerment and as a valuable contribution to entrepreneurship and competitive advantage literature.

**Keywords:** Product Innovation, Storytelling Communication, Digital Integration, Entrepreneurial Competency, Sustainable Competitive Advantage

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## Introduction

Economic globalization has created an increasingly open and competitive market environment, requiring Micro, Small, and Medium Enterprises (MSMEs) to remain resilient in this complex arena. Under such conditions, local MSMEs can no longer rely solely on traditional production bases, but must develop adaptive entrepreneurial strategies to generate sustainable competitive advantage. Competitive advantage in this context refers to the ability of enterprises to manage resources, core competencies, and market strategies in ways that enable them to achieve a superior competitive position compared to rivals (Associate, 2012; Ferdinand, 2005).

The strategic role of MSMEs in the national economy is reflected in their changing contribution relative to large enterprises. Empirical data indicate that between 2011 and 2012, MSMEs experienced an overall increase in economic contribution, while large enterprises showed a decline. A summary of these structural changes is presented in Table 1

Table 1. Changes in Business Contribution Structure in Indonesia (2011–2012)

Business Category	Contribution 2011 (%)	Contribution 2012 (%)	Change (%)
Large Enterprises	41.95	40.92	-1.03
Medium Enterprises	13.46	13.59	+0.13
Small Enterprises	9.94	9.68	-0.26
Micro Enterprises	34.64	38.81	+4.17

Source: Processed from national MSME statistics (2011–2012).

As shown in Table 1, large enterprises experienced a 1.03% decline in contribution, whereas micro enterprises recorded the most significant increase, at 4.17%. Although small enterprises experienced a slight decrease, the overall trend highlights that MSMEs have

strengthened their dominant position within Indonesia's economic structure. In addition, MSMEs' contribution to the national Gross Domestic Product (GDP) further underscores their substantial economic significance. The growth of MSME contribution to GDP during the 2011–2012 period is summarized in Table 2.

Table 2. Contribution of MSMEs to Indonesia's National GDP (2011–2012)

Year	MSME Contribution to GDP (Rp Trillion)	Share of National GDP (%)
2011	4,321.8	58.05
2012	4,869.5	59.08

Source: Processed from national GDP and MSME contribution data.

MSMEs increased their contribution to GDP from Rp4,321.8 trillion (58.05%) in 2011 to Rp4,869.5 trillion (59.08%) in 2012. These figures confirm that MSMEs are not merely a pillar of the people's economy but also a major driver of national economic growth amid intensifying global competition.

Within the context of local economic development, the downstreaming of rural products into urban markets has emerged as an increasingly relevant strategic approach. Downstreaming can be understood as a process of value-added enhancement through processing, distribution strengthening, and market orientation development, enabling rural products to compete within broader market structures. From the Resource-Based View (RBV) perspective, downstreaming represents the integration of strategic resources, enabling MSMEs to build unique capabilities rooted in local potential (Metekohy, 2013; Ferdinand, 2005). Thus, downstreaming is not merely a technical-economic process but rather a structural entrepreneurial strategy that facilitates the transformation of village-based products into competitive commodities in urban spaces.

Entrepreneurship studies further emphasize that entrepreneurial intention and

interest constitute fundamental foundations for the formation of business activity. Factors such as entrepreneurship education, business knowledge, self-efficacy, and entrepreneurial characteristics have been shown to significantly shape individuals' intentions to initiate ventures (Aditia Putra, 2012; Mustofa, 2014). Hermina et al. (2011) and Lestari and Wijaya (2012) highlight that entrepreneurship learning within educational institutions enhances students' motivation and readiness to become entrepreneurs. Moreover, external factors such as environmental support, sociodemographic contexts, and social dynamics also strengthen entrepreneurial intentions among younger generations (Rochayati et al., 2013; Suharti & Sirine, 2013). Nevertheless, much of this literature remains focused at the individual level and has not explicitly linked entrepreneurship to rural development strategies, such as downstreaming products toward urban markets.

On the other hand, the MSME competitive advantage literature emphasizes the importance of entrepreneurial and market orientations as key determinants of sustainable competitiveness. Imam and Zainul (2014) argue that an entrepreneurial orientation, combined with innovation and market orientation, enhances MSMEs' competitive advantage and marketing performance. Mahmood and Hanafi (2013) add that competitive advantage may serve as a strategic mediator between entrepreneurial orientation and MSME business performance. Furthermore, supply chain management practices contribute to competitiveness through distribution efficiency and market integration (Li et al., 2006). However, these studies are largely quantitative and tend to examine internal organizational variables without deeply exploring rural-urban downstreaming processes as a broader contextual entrepreneurial strategy.

In local economic development, downstreaming is increasingly critical because

rural areas serve as production spaces based on local resources, whereas urban areas are consumption spaces marked by intense market competition. Transforming rural products to penetrate urban markets requires more than distribution activities alone; it demands value-added innovation, branding strategies, strengthened marketing networks, and adaptive capabilities aligned with urban consumer preferences. Therefore, downstreaming may be interpreted as an entrepreneurship-based strategy rooted in local capabilities, enabling rural MSMEs not only to survive but also to compete effectively within wider market structures

Despite its importance, academic studies that specifically connect rural product downstreaming with the formation of MSME competitive advantage remain limited. Most entrepreneurship research focuses on psychological aspects such as entrepreneurial intention (Aditia Putra, 2012; Mustofa, 2014), while competitive advantage studies emphasize entrepreneurial orientation, innovation, and market orientation within organizational contexts (Imam & Zainul, 2014; Mahmood & Hanafi, 2013). Consequently, downstreaming as an integrative strategic process linking rural and urban economies has not been sufficiently examined as a competitive resource for MSMEs.

Based on this review, several research gaps can be identified. First, studies examining rural product downstreaming as an entrepreneurial strategy to build MSME competitive advantage remain scarce, particularly in Indonesia's local economic context. Second, prior research tends to analyze entrepreneurial variables separately, such as innovation, entrepreneurial orientation, or supply chain management, without integrating downstreaming as a comprehensive rural-urban development strategy (Li et al., 2006; Imam & Zainul, 2014). Third, research on local value dynamics, adaptive rural product strategies, and urban market competition as part of downstreaming

processes remains limited, particularly within qualitative interpretive approaches.

Accordingly, the novelty of this study lies in its effort to conceptualize rural product downstreaming into urban markets as a strategic resource that shapes the competitive advantage of local MSMEs within an entrepreneurial framework. This research positions downstreaming not merely as a technical-economic activity but as a competitive capability integrated with entrepreneurial orientation, core competencies, and urban market dynamics (Associate, 2012; Metekohy, 2013). Through an interpretive qualitative case study approach, this study is expected to contribute theoretically to the development of entrepreneurship and competitive advantage literature, while also offering practical implications for rural MSMEs and policymakers in formulating downstreaming strategies as a pathway for strengthening local economies under global competitive pressures.

Building on these gaps, this study aims to explore how rural product downstreaming into urban markets can serve as an entrepreneurial strategy to strengthen the competitive advantage of local MSMEs. Specifically, this research seeks to understand how MSMEs mobilize local resources, develop adaptive market capabilities, and integrate downstreaming processes to enhance their positioning in highly competitive urban consumption spaces. In doing so, this study addresses the following guiding research questions: (1) How is rural product downstreaming interpreted and implemented by local MSMEs as a strategic entrepreneurial process? (2) In what ways does downstreaming contribute to the creation of sustainable competitive advantage for rural-based MSMEs entering urban markets? and (3) What contextual challenges and opportunities emerge in the rural–urban transformation of local products within Indonesia’s economic landscape?

The remainder of this paper is structured as follows. Following this introduction, the next section reviews the theoretical foundations of MSME entrepreneurship, competitive advantage, and downstreaming

strategies within the Resource-Based View framework. The methodology section then explains the interpretive qualitative case study approach employed in this research, including data collection and analysis procedures. The subsequent findings and discussion section present key empirical insights on how downstreaming processes shape MSME competitiveness and market adaptation. Finally, the conclusion highlights the study’s main contributions, outlines practical implications for MSME development and policy formulation, and suggests directions for future research.

### **Integrating Contexts**

This study was designed to gain a deep understanding of how the downstreaming of rural products to urban areas can serve as a source of competitive advantage for local MSME entrepreneurship. The focus of the study is not only to examine downstreaming as a mere economic distribution activity, but also as a strategic process involving the integration of local resources, the transformation of added value, and the dynamics of competition in urban markets. Therefore, this study uses a context-based interpretive case study design, which allows researchers to explore the practices, experiences, and meanings of MSME actors in building competitiveness through the downstreaming of rural products. This interpretive approach was chosen because the downstreaming strategy is a complex phenomenon that cannot be explained solely by measuring separate variables. Instead, it requires a contextual understanding of how business actors manage innovation, market orientation, and internal competencies in facing urban competition.

This research was conducted on local MSMEs based on village production that have transformed their products for urban markets, both through direct distribution channels and digital marketing integration. The rural-urban context was chosen because downstreaming reflects not only production and processing processes but also a new competitive arena that brings together local village identities with the demands of a more open and

competitive urban market. Therefore, this research positions downstreaming as part of a structural entrepreneurial strategy that encourages rural MSMEs to transform into more adaptive and superior economic actors.

The subjects of this study were MSMEs implementing a downstreaming strategy for village products to cities, particularly in the processed food, local crafts, and village commodities sectors that have experienced increased added value. Research informants were selected using purposive sampling, a deliberate selection based on criteria relevant to the research focus. These criteria include MSMEs originating from villages, having undertaken downstreaming processes such as product processing, branding, and distribution to urban markets, and actively competing in urban markets. In addition to MSMEs, this study also involved supporting informants, such as distributors, urban consumers, and local institutions (village cooperatives or entrepreneurial communities), to more comprehensively strengthen the downstreaming ecosystem perspective. The number of informants was gradually determined until reaching the saturation point, which is the point at which the data obtained are repetitive and no longer yield significant new information.

Data collection was conducted through in-depth semi-structured interviews, field observations, and documentation studies. Interviews were used to explore MSMEs' experiences regarding downstreaming strategies, adaptations to urban markets, and efforts to build competitive advantage through product and service innovation. Observations were conducted to directly observe downstreaming practices, including production, packaging, distribution, and MSME interactions with urban consumers. Documentation studies supplemented field data through business archives, promotional materials, MSME reports, and policy information relevant to downstreaming and strengthening local MSMEs.

Data analysis was conducted thematically and interpretively, including transcription of interviews, initial coding, grouping codes into key themes, and interpreting findings within the theoretical framework of the Resource-Based View and competitive advantage. Emerging themes were then analyzed to explain how the downstreaming of village products can serve as a strategic capability that differentiates local MSMEs from competitors, particularly in urban markets. The analysis was conducted iteratively, with researchers continuously linking empirical data to theoretical concepts to produce a rich, in-depth narrative.

Data validity was maintained through source triangulation by comparing information from MSMEs, consumers, and supporting parties, and through method triangulation by combining interviews, observations, and documentation. Furthermore, member checking was conducted by confirming initial findings with informants to ensure the researcher's interpretations aligned with the participants' experiences. An audit trail was also implemented by systematically documenting all stages of the research, enabling the research process to be traced academically and to meet the credibility standards of qualitative studies.

Overall, the stages of this research include identifying the phenomenon of downstreaming village products to cities, mapping related MSMEs, purposive selection of informants, collecting field data through interviews and observations, interpretive thematic analysis based on the theory of competitive advantage, and drawing conclusions regarding downstreaming as a strategic resource that shapes the competitive advantage of local MSMEs. Thus, this methodology is expected to provide a strong contextual understanding of how downstreaming village products can become a relevant entrepreneurial path in strengthening

local economic competitiveness amidst the pressures of global competition

### **Integrating Channels**

#### **Downstreaming of Village Products as a Strategy to Increase Added Value**

The research findings indicate that the downstreaming of village-based products into urban markets is carried out through a structured series of processes, including raw product processing, packaging improvement, branding development, and distribution strengthening. MSMEs involved in this study emphasized that downstreaming should not be understood merely as a production-oriented activity, but rather as a strategic approach to expand market share, enhance product value, and create sustainable competitiveness. This confirms that downstreaming functions as a pathway for rural enterprises to integrate into wider economic networks beyond traditional local markets.

One MSME actor explained how downstreaming has shifted their business orientation from selling commodities to offering differentiated consumer products: *"We not only sell organic rice, but also package it in premium packaging with a village label, so that urban consumers see it as a quality product that is different from traditional markets"* (MSME Informant A). This statement reflects the awareness among MSMEs that urban consumers evaluate products not only based on raw quality, but also on packaging, branding, and perceived market legitimacy. Thus, downstreaming becomes a strategic tool for repositioning rural products into higher-value market segments.

Field observations further show that MSMEs have begun diversifying their product lines by transforming agricultural outputs into ready-to-eat meals, packaged snacks, and locally based craft products. This diversification represents an effort to move away from dependence on raw commodity sales, which often generate low margins and unstable income. By processing products into more market-ready forms, MSMEs can capture additional economic value and

respond more effectively to urban consumer preferences.

Internal MSME documentation, including production reports and digital promotional materials, indicates that processed and packaged products generate significantly higher sales value compared to raw commodities. These findings demonstrate that added value can be achieved through processing innovation, improved distribution systems, and product differentiation. In line with Porter's (2008) framework, competitiveness emerges when enterprises create distinct market positions and offer products perceived as unique in competitive environments.

Moreover, the findings reinforce that competitive advantage can emerge when MSMEs develop internal capabilities rooted in local resources, innovation, and market-oriented strategies. From the Resource-Based View perspective, such capabilities become strategic assets that are valuable, inimitable, and capable of sustaining long-term competitiveness (Barney, 2010). In this context, downstreaming is not simply a technical activity, but a capability-building process that strengthens MSMEs' ability to compete beyond rural boundaries.

In addition, the study highlights that downstreaming contributes to broader rural economic transformation by enabling MSMEs to connect village-based production systems with urban consumption markets. This linkage strengthens local economic circulation, supports employment creation, and encourages knowledge-based innovation within rural enterprises. Urbancova (2013) emphasizes that innovation and knowledge integration are key foundations for achieving competitive advantage, which aligns with the observed downstreaming practices among MSMEs in East Java.

In practice, these findings imply that rural MSMEs aiming to penetrate urban markets should prioritize process improvements, packaging differentiation, branding that emphasizes local identity, and strengthened distribution strategies. Empowerment programs, therefore, should not focus solely on increasing production capacity but must

support downstream-oriented business transformation that enhances added value and market competitiveness. Overall, downstreaming emerges as a strategic mechanism through which village-based MSMEs can move up the value chain, expand market opportunities, and contribute to sustainable local economic development.

### **Local Product and Branding Transformation**

The research findings indicate that a successful downstreaming process is inseparable from branding development and product transformation strategies. MSMEs in East Java emphasized that value creation occurs not only through processing activities but also through how products are presented, communicated, and positioned in urban markets. Branding, therefore, becomes a strategic mechanism that enables rural-based products to compete within consumer segments that prioritize identity, trust, and differentiation.

One MSME actor highlighted the importance of storytelling and village identity in packaging and promotion: *“We tell the story of the origins of our raw materials from our village on our packaging and social media. Urban consumers are attracted not only by the taste, but also by the value of the story and local identity”* (MSME Informant B). This reflects that branding is not merely a logo or label, but a narrative strategy that builds emotional connection and legitimacy among urban consumers. Such local identity-based branding allows MSMEs to reposition village products as premium and authentic commodities rather than ordinary rural goods.

Field observations further revealed that MSMEs have begun adopting more professional packaging designs, clearer product labeling, and consistent promotional messages via digital platforms. Many enterprises have shifted from simple traditional wrapping toward modern packaging that includes village branding elements, product certifications, and

consumer-oriented information. This transformation demonstrates that MSMEs are increasingly aware that urban market competition is shaped not only by product quality but also by perceived value, brand trust, and consumer experience.

This approach is consistent with the findings of Imam and Zainul (2014), who emphasized that entrepreneurial orientation combined with market orientation can enhance competitive advantage through innovation and differentiation. In this study, MSMEs demonstrated entrepreneurial adaptability by modifying product forms, improving packaging aesthetics, and developing promotional storytelling that matches urban consumer expectations. These strategies reflect innovation not only in production, but also in market communication.

In addition, Mahmood and Hanafi (2013) found that competitive advantage mediates the relationship between entrepreneurial orientation and business performance. This is evident in how MSMEs in East Java adjust product attributes and branding approaches to align with urban consumer preferences. Through differentiation and a stronger brand identity, MSMEs gain a competitive position that supports better sales performance and wider market penetration.

Furthermore, the research confirms that branding transformation must be supported by strengthened distribution systems. Previous research highlights that supply chain management practices, including improved distribution channels and branding efforts, contribute significantly to competitiveness (Li et al., 2006). Field findings revealed the implementation of semi-mass distribution mechanisms, collaboration with local distributors, and the increasing use of e-commerce platforms. These strategies enable rural MSMEs to extend their reach beyond village markets and connect more effectively with urban consumers.

Overall, the findings indicate that digital integration has become a key mechanism for improving the visibility and accessibility of rural-based products within wider markets. Rural MSMEs should therefore combine branding strategies that emphasize local identity with both digital and physical distribution channels to strengthen their competitive position and sustain long-term market expansion. This integration of product transformation, branding, and distribution represents a crucial pathway to downstream success and to building sustainable competitive advantage among village-based enterprises.

### **Adapting to Urban Markets and Competition Dynamics**

The research findings indicate that MSMEs in East Java face substantial challenges in penetrating urban markets. These challenges arise not only from differences in consumer tastes but also from intense competition with imported products and large-scale industries that dominate modern retail environments. Urban markets require MSMEs to compete on product consistency, packaging quality, branding clarity, and consumer trust, which often differ significantly from rural market expectations.

One entrepreneur explained this pressure to adapt clearly: *"We have to adjust the size, packaging, and even the taste of our products to suit urban consumer preferences without losing local value"* (MSME Informant C). This statement indicates that downstreaming is not merely the relocation of village products to city markets, but rather a strategic transformation process. MSMEs must balance modernization with the preservation of local identity in order to remain attractive to urban consumers.

Field observations further revealed that MSMEs actively modify product attributes in response to urban consumer demand. For example, enterprises adjusted portion sizes, improved packaging aesthetics, introduced clearer labeling, and diversified flavors to align with urban purchasing behavior. These adaptations demonstrate that MSMEs are increasingly aware that competitiveness in

urban markets is shaped by consumer perception and market positioning rather than by production alone.

From a strategic perspective, this adaptation process underscores the importance of differentiation and unique positioning in competitive markets. Porter (1990; 2008) emphasizes that enterprises gain a competitive advantage by establishing distinct value propositions that set them apart from rivals. In this study, MSMEs sought to differentiate their products by combining local authenticity with modern packaging and urban-oriented product design, enabling them to compete more effectively with mass-produced alternatives.

In addition, the findings support the view that sustainable competitiveness depends on internal capabilities that competitors find difficult to imitate. According to the Resource-Based View, competitive advantage emerges when firms develop valuable and rare strategic resources (Barney, 2010). In this context, MSMEs' ability to integrate local cultural values with adaptive marketing practices becomes a unique capability that strengthens their position in urban competition.

Observations of MSME interactions with urban consumers also indicate a process of value co-creation, where consumer feedback plays an important role in driving product innovation. MSME actors reported that buyers' suggestions regarding taste, packaging, and convenience influenced further product improvements. This aligns with Kotler and Keller's (2013) emphasis that marketing is fundamentally about understanding consumer needs and creating value through continuous engagement.

The practical implication of these findings is that MSMEs must establish systematic mechanisms to collect and analyze consumer feedback in urban markets. Empowerment programs should therefore support MSMEs not only in upgrading production but also in developing adaptive marketing capabilities, consumer-oriented innovation, and strategic positioning. Such continuous adaptation is essential for MSMEs to sustain competitiveness, expand market access, and

contribute to broader rural-to-urban economic transformation.

### **The Role of Entrepreneurship Education and Individual Competence**

The research findings indicate that the success of downstreaming village-based products into urban markets is influenced not only by external factors such as distribution networks and branding strategies, but also by internal factors related to individual competence. MSME actors emphasized that entrepreneurial knowledge, innovation capacity, and self-efficacy are crucial to enabling rural entrepreneurs to adapt to market demands and compete effectively in urban environments.

Interviews revealed that many MSME entrepreneurs initially lacked confidence in engaging with broader markets due to limited exposure to modern business practices. However, informants reported that participation in entrepreneurship training programs, branding workshops, and MSME mentoring sessions significantly increased their understanding of market orientation and strengthened their motivation to expand beyond local consumer circles. This suggests that empowerment must involve capacity-building at the individual level, not merely business assistance at the structural level.

Field observations further demonstrated that entrepreneurs who received training were more proactive in improving product presentation, adopting digital marketing tools, and communicating product value to urban consumers. For instance, MSME actors were observed implementing clearer branding, adjusting packaging design, and using social media platforms more consistently after participating in mentoring programs. These practices indicate that entrepreneurship education contributes to practical behavioral change within MSME operations.

From a marketing perspective, such competence development aligns with the view that successful business growth requires an

understanding of consumer needs and the creation of value. Kotler and Keller (2013) emphasize that marketing is not simply selling products, but a strategic process of creating and delivering value to targeted consumers. Entrepreneurs who internalize this knowledge are better positioned to market village-based products as differentiated goods in urban markets.

In addition, the findings suggest that entrepreneurial competence functions as a strategic resource that supports sustainable competitiveness. According to the Resource-Based View, competitive advantage arises when enterprises possess valuable, inimitable capabilities (Barney, 2010). In this context, individual skills in innovation, branding, and market engagement become critical internal assets that strengthen MSMEs' ability to sustain downstreaming success over time.

Moreover, entrepreneurship education supports continuous innovation, which is essential for competing in dynamic urban markets. Urbancova (2013) highlights that innovation and knowledge integration are key determinants of competitiveness. MSME entrepreneurs who develop adaptive learning capacities through training are more likely to respond to consumer feedback, introduce product improvements, and maintain relevance in competitive environments.

The practical implication of these findings is that entrepreneurship mentoring and training should be integrated into MSME empowerment strategies in East Java. Empowerment programs should not focus solely on capital assistance or production support, but must prioritize human capital development to strengthen internal readiness for urban market penetration. By enhancing entrepreneurial competence, MSMEs can improve their competitiveness, expand market access, and contribute more effectively to local economic transformation and poverty reduction.

### **Digital Market Integration as a Support for Downstream Processing**

The research findings indicate that digital market integration has become a key enabler of the downstream processing of village-based products for urban markets. Digital transformation enables MSMEs not only to expand market access but also to strengthen branding, improve consumer engagement, and enhance competitiveness. In East Java, MSME actors increasingly view digital platforms as strategic tools that complement improvements in product processing and packaging within downstreaming practices.

Interviews revealed that MSMEs are actively using e-commerce platforms, social media, and online marketplaces to reach consumers beyond their immediate rural environment. One stakeholder explained: *“Online platforms help us reach consumers in various cities, while also facilitating promotions without significant physical costs”* (MSME Informant D). This statement reflects that digitalization reduces geographic barriers and allows rural MSMEs to participate in wider market ecosystems without relying solely on traditional distribution channels.

Field observations further showed that digital integration supports branding transformation by enabling MSMEs to communicate product value more effectively. MSMEs were observed using social media to highlight local identity, promote premium packaging, and share storytelling about the origins of village-based production. These digital branding practices help rural products gain visibility and legitimacy among urban consumers, who often rely on online information before making a purchase.

From a marketing perspective, digital platforms strengthen the value-creation and consumer relationship-building processes. Kotler and Keller (2013) emphasize that marketing is fundamentally about creating value and maintaining engagement with target markets. Through direct interaction in digital spaces, MSMEs can better understand consumer preferences, respond to feedback, and build stronger customer loyalty, which is essential for the success of sustainable downstreaming.

In addition, digital integration contributes to competitive advantage by supporting differentiation and strategic market positioning. Porter (2008) argues that enterprises achieve competitiveness by offering distinct value propositions and positioning themselves uniquely within competitive environments. In this study, MSMEs used digital tools to differentiate village-based products through branding, packaging aesthetics, and consumer-oriented promotion strategies, enabling them to compete more effectively against mass-produced urban alternatives.

From the Resource-Based View perspective, digital marketing capabilities can be understood as strategic internal resources that are valuable and difficult to imitate. Barney (2010) highlights that sustainable competitive advantage emerges when firms develop unique capabilities embedded within their organizational practices. For rural MSMEs, the ability to integrate digital technology with local branding and downstream product transformation becomes a distinctive capability that strengthens long-term competitiveness.

The practical implication of these findings is that rural MSMEs should adopt integrated digital marketing strategies aligned with downstream processing and local identity-based branding. Empowerment programs must therefore support MSMEs not only in production upgrading but also in digital capacity building, including marketplace utilization, content creation, and consumer engagement management. Such integration enables MSMEs to expand urban market penetration, increase consumer loyalty, and contribute more effectively to inclusive local economic transformation.

### **The Impact of Downstreaming on the Competitive Advantage of MSMEs**

Thematic analysis shows that downstreaming village products provides several dimensions of competitive advantage. First, product differentiation based on quality, packaging, and local identity creates a unique selling proposition that differentiates MSMEs from competitors. Second, the integration of

distribution and digital marketing increases efficiency and market reach. Third, enhancing internal capabilities through entrepreneurial learning strengthens innovation orientation and adaptation to urban market demands.

These results align with those of Imam & Zainul (2014), Li et al. (2006), and Mahmood & Hanafi (2013) regarding the relationship between entrepreneurial orientation, supply chain management practices, and competitive advantage. Furthermore, these findings reinforce Ferdinand (2005), who emphasized social interaction and strategic resource management as determinants of competitive position. Frese (2002) also supports the finding that adaptive strategic capabilities are a key factor in MSME success in facing competitive markets. The practical implication is that MSMEs must simultaneously build internal and external capabilities to maintain and enhance long-term competitive advantage.

### **Comparison with Previous Studies**

The results of this study reinforce and extend several previous findings. For example, Suryana (2013) emphasized that successful entrepreneurship requires internal capabilities, market orientation, and innovation; field findings indicate that downstreaming is a concrete means of implementing these principles. Studies by Wahyono (2014) and Suhartini (2011) on entrepreneurial interest emphasize the influence of education and self-efficacy, which is consistent with the role of individual competencies in MSME downstreaming practices. Furthermore, Metekohy (2013) emphasizes resource-based strategies (RBV) as a key to competitive advantage; this study confirms that downstreaming village products is a concrete form of strategic resource integration that combines local resources, entrepreneurial knowledge, and access to urban markets. These findings also align with Mahmood & Hanafi (2013) regarding competitive advantage as a mediator between

entrepreneurial orientation and business performance, and Li et al. (2006) regarding supply chain management as a competitiveness enhancer.

Furthermore, the findings of this study confirm that digital market integration significantly enhances the visibility and penetration of rural MSME products into wider urban markets. The combination of online platforms and marketplace-based promotion enables MSMEs to expand beyond local boundaries and engage directly with consumers in different cities. This suggests that downstreaming is no longer limited to physical distribution processes, but increasingly involves digital strategies that strengthen market access and competitiveness.

In addition, the strategic integration of both physical and digital downstreaming represents an important mechanism for rural MSME development. While distribution partnerships remain essential to ensuring product availability in urban outlets, digital marketing channels contribute to branding, consumer communication, and trust-building. This dual approach allows MSMEs to compete more effectively with larger industries by positioning local products as professional, differentiated, and accessible.

Moreover, Ferdinand's (2005) and Frese's (2002) concept of value co-creation is reflected in the way MSMEs continuously adapt their products to urban consumer preferences. Through feedback mechanisms and ongoing innovation, downstreaming not only increases the economic value of rural products but also enhances their social and cultural value by maintaining local identity within modern market expectations. Therefore, downstreaming emerges as a transformative strategy that links rural resources, entrepreneurial capability, and urban demand into a sustainable pathway to competitiveness.

Overall, this study demonstrates that downstreaming rural products to urban areas

is a strategic mechanism that combines product innovation, entrepreneurial competency, local branding, distribution, and digitalization. This combination forms a competitive capability that differentiates rural MSMEs from competitors and strengthens their competitiveness in urban markets. These findings not only expand the literature on entrepreneurship and competitive advantage but also provide practical implications for developing downstreaming strategies as a pathway to local economic empowerment, including strengthening internal capacity, adopting market adaptation strategies, and integrating digital technologies to increase added value and business sustainability.

### Concluding Thoughts

This study confirms that downstreaming village products to urban markets is an entrepreneurial strategy that creates a competitive advantage for local MSMEs by integrating product innovation, local branding, distribution, and digital technology. The downstreaming process not only increases the economic value of village products through processing, packaging, and differentiation but also strengthens local identity, which becomes a unique attraction for urban consumers. Interview and observation findings indicate that village MSMEs that successfully integrate storytelling, product adaptation, and digital distribution are able to create a superior competitive position compared to competitors, both large industries and imported products.

Furthermore, this study emphasizes the role of individual competencies and entrepreneurship education in the success of downstreaming. Training, branding workshops, and mentoring for MSMEs increase entrepreneurs' self-efficacy, innovation orientation, and adaptability in facing the dynamics of the urban market. This process demonstrates that developing a competitive advantage depends not only on external factors but also on internal capabilities integrated with the downstreaming strategy.

Digital market integration is a crucial catalyst for expanding product reach,

increasing visibility, and facilitating two-way interactions with urban consumers. This strategy aligns with the Resource-Based View (RBV) perspective, which emphasizes that local resource management, innovation, and digital market access constitute unique capabilities that underpin competitive advantage. Conceptually, this research contributes to the literature on entrepreneurship and competitive advantage by positioning downstreaming as a strategic resource that connects entrepreneurial orientation, individual competencies, and urban market dynamics. Practically, these findings offer implications for MSMEs and policymakers:

- 1 MSMEs need to prioritize product transformation and branding to increase added value and product differentiation.
- 2 Entrepreneurship mentoring and education must be integrated into MSME development strategies to strengthen internal capabilities.
- 3 Utilizing digital platforms and e-commerce needs to be part of the distribution strategy to achieve broader market penetration and respond more quickly to consumer preferences.
- 4 Downstream processing can be a strategic path to strengthening the local economy, adding not only economic but also social and cultural value to village products.

Thus, downstreaming village products to urban markets is not only a mechanism for increasing economic value but also a strategic capability that forms the competitive advantage of local MSMEs in the context of entrepreneurship, while also providing a model for village economic development that is adaptive to the pressures of global competition.

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