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Porter's Five Forces Perspective Review on the Development of Micro and Small-Scale Fashion Businesses

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Abstract
Background: Fashion micro and small-scale enterprises (MSMEs) in Central Java are encountering intense competition from comparable entities operating at both national and international levels.
Objectives: This research aims to analyse Porter's Five Forces framework, with digital integration and innovation, in the development of fashion businesses.
Methodology: The Five Forces analysis offered a comprehensive framework, including aspects of competition, supplier power, barriers to entry, threats posed by substitute products or services, and buyer power, to assess MSME development. Fashion MSMEs in Central Java were analysed using a qualitative method. Furthermore, the analysis was conducted in the five largest social media user regencies in Central Java, namely Klaten, Semarang, Pemalang, Tegal, and Jepara.
Results: The application of Porter's Five Forces remained a relevant and effective strategy for developing fashion MSMEs. However, the integration of digitalisation and innovation was

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essential in responding to the demands of globalisation. Even though the fashion business adopted digitalisation as a supporting role, innovation remained the primary driver of the development.
Conclusion: Intense competition in the fashion industry necessitates innovation that prioritises product uniqueness, a trend expected to remain important over time.
Unique Contribution: This study offers a unique contribution by empirically integrating digital transformation and innovation into Porter's Five Forces framework, validating its continued relevance and effectiveness for developing small-scale enterprises. It provides novel strategic guidance by demonstrating that innovation—rather than digitalisation as a supporting tool—remains the primary driver of competitive uniqueness among fashion MSMEs in emerging regional markets such as Central Java.
Key Recommendation: This study strongly recommends that online travel service providers, marketers, and executive leaders of fashion MSMEs in Central Java prioritise innovation and product uniqueness as the core competitive strategy. They should primarily leverage digitalisation as a supporting tool to improve market access and operational efficiency, rather than treating it as the main driver of competitive advantage, thereby aligning strategies with the persistent demands of intense market competition.
Keywords: Buyer Power; Competition; Digital; Innovation; New Entrants

Introduction

Micro and small-scale enterprises (MSMEs) constitute 99% of all business units in Indonesia, contributing 60.5% to the Gross Domestic Product (GDP) and accounting for 96.9% of total national employment. The majority of the enterprises are micro businesses, which proved particularly vulnerable when the COVID-19 pandemic disrupted economies worldwide, including Indonesia. As the driving force of the national economy, MSMEs experienced substantial impacts in terms of production, trade value, and workforce size. In this context, the community economy is damaged when MSMEs collapse (Riptanti et al., 2024). Various government policies have been implemented to support economic recovery and enhance business performance in response to the situation. These include training programs, raw material support, capital assistance, early pandemic instalment relief, and employment cards. However, the efforts do not significantly improve the performance of micro businesses.

The COVID-19 pandemic creates positive effects, such as new business opportunities for MSMEs actors who adapt to the situation. Market formation initiatives establish new equilibria and drive development in a more profitable direction when the entrepreneurial mindset is tested during and after the pandemic. Only a small number of MSMEs can capitalise on these opportunities.

The fashion business in Central Java is part of the sectors in the creative industry that have been affected by COVID-19. Certain businesses shut down due to a lack of demand, while others survive by adapting to the situation (Riptanti et al., 2024). Fashion is not an immediate necessity for consumers, as essential goods are generally prioritised. Consumers with purchasing power consider many factors before purchasing fashion products. In an increasingly competitive market, fashion producers must proactively identify and capitalise on opportunities to maintain a competitive edge. The fashion industry in Central Java faces intense competition from local and international businesses, as well as imported products. New entrants are continually emerging to

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meet the growing demand for diverse fashion offerings, as consumer trends and lifestyles continue to evolve.

The development of the textile industry, whether in modern or traditional technology, cannot be separated from its role in advancing the fashion business. The industry has experienced the permanent closure of several large-scale entities due to the inability to compete in the domestic and foreign markets, affecting the fashion business. Therefore, an effective strategy is necessary to address the increased level of competition. In this context, Porter's five forces analysis serves as a strategic tool for understanding industry dynamics and formulating effective strategies (Khurram et al., 2020). Experts and managers agree that the five forces provide a comprehensive framework that integrates competition, supplier power, barriers to entry, threats of substitute products/services, and buyer power (Wellner & Lakota, 2020). Based on these aspects, businesses can develop more effective strategies to enhance competitiveness and maintain profitability in a changing market environment. Porter's Five Forces model shows that competition plays a role in shaping industry structure and influences the attractiveness and profitability of a business. Consequently, a business strategy is developed to strengthen the market position and mitigate potential threats that could impact growth.

According to Bruijl (2022), many experts and analysts supported the use of a comprehensive method (outside-in perspective) to understand the position of consumers or suppliers, intense rivalry, effective substitutes, and new market entrants in reducing the value created by business (Porter, 2008; Kimble & Bourdon, 2012). The Five Forces model has gained popularity for its broad applicability across various industries. The model can be effectively adapted to analyse MSMEs, even though it was initially intended for large-scale entities (Bruijl, 2022).

The competitive landscape for fashion MSMEs following the COVID-19 pandemic has become increasingly intense and dynamic. Business faces various obstacles and challenges to survive and thrive. Although several studies on business strategy exist, specific investigations examining business strategies in Central Java using Porter's Five Forces analysis are limited. Investigations connecting the dynamics of industry competition with the need for strategic adaptation by fashion businesses are scarce. Therefore, this research is crucial for addressing the limited literature and providing relevant strategic insights for fashion MSMEs to navigate competitive pressures and capitalise on market opportunities.

The application of Porter's Five Forces can help business owners identify the opportunities and challenges they face in a competitive industry. Competition in the fashion industry includes local players. It is also influenced by the presence of national and international brands, which hold advantages in terms of production scale, innovation, and marketing (Mahat, 2018). This research aims to examine Porter's Five Forces framework in conjunction with digital aspects and innovation in the development of the fashion industry. Based on this context, the framework is applied to examine fashion MSMEs in several regencies in Central Java.

E-ISSN: 2735-9891 DOI: https://doi.org/10.5281/zenodo.17697665

Literature Review

Michael Porter's 1979 Five Forces framework is a key business strategy tool (Porter, 2008). The model has limitations, despite being recognised as a comprehensive method (Kimble & Bourdon, 2012). A key weakness is the difficulty in operationalisation (Dobbs, 2014) due to the subjective nature of the forces, which makes assigning numerical values challenging (Khurram et al., 2020). Furthermore, the improper application of the framework can impact business value due to consumer or supplier power, or threats from new entrants or substitute products (Porter, 2008; Kimble & Bourdon, 2012; Mahat, 2018). Some criticisms of the framework were poorly founded. Dobbs (2014) criticised practitioners' partial understanding of the model, which led to inaccurate analyses and poor outcomes. A detailed checklist was suggested to validate assumptions with data in preventing misapplication.

The application of Porter's Five Forces to MSMEs has led to a debate about its suitability for large businesses. Theoretically, large businesses have a greater environmental influence than MSMEs (Bruijl, 2022), leveraging economies of scale, global supply chains, and influencing regulations. Strategists argued that the application of the framework required significant adjustments (Johson, 2014). Experts have modified Porter's Five Forces analysis. Mohapatra (2012) reported the important role of the government as an external factor influencing industry regulations and competitiveness. This supported the critique by Narayanan and Fahey (2005) that the model failed to account for institutional and regulatory differences.

Bruijl (2022) suggested three additional forces —namely, globalisation, digitalisation, and deregulation —to complement the framework. Johnson (2014) also added the level of innovation, while Isabelle et al. (2020) proposed four additional forces, including competitor innovation, globalisation, digitalisation, and the industry's influence on regulations. Porter's (2008) opinion correlated with the criticism that the framework struggled to be applied to technologically advanced industries. Furthermore, the government should be considered a separate force, and the need for innovation must be emphasised in the framework. Bruijl (2022) argued that innovation, previously viewed as an internal factor, was considered a significant external force influencing industrial competition. In this research, Porter’s five forces were applied to MSMEs alongside digital technologies despite not operating in high-tech sectors. Originally, the framework was developed for large-scale entities; however, other research supported its application in MSMEs, including the fashion industry. Several studies have proposed adjustments and additions to elements such as innovation, digitalisation, and the role of government to adapt the framework to the more complex and rapidly changing industry dynamics. These conceptual adjustments provide a strong foundation in applying Porter's Five Forces contextually and applicably to MSMEs. Therefore, the framework is considered appropriate for analysing the competitive environment of fashion MSMEs in Central Java.

Materials and Methods

This research used a qualitative design, which did not require a hypothesis (Riptanti et al., 2024). Triangulation of sources, methods, and time was used to enhance the credibility and validity of the results. Additionally, the triangulation involved sources, methods, and time. The research locations were Klaten, Semarang, Pemalang, Tegal, and Jepara, selected based on the highest number of

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social media users in Central Java (Riptanti et al., 2024). Fashion MSMEs from each region were selected by considering the following criteria: (1) the business offered unique fashion products recognised outside the region, and (2) the business used digital media in its operations. Based on the informants from relevant institutions in each region, fashion businesses selected as research subjects included (1) the lurik fabric business (Bagyo small business, Klaten Regency), ecoprint fabric products (La Romiz micro business, Semarang City), hand-drawn batik (Arum Cempaka micro business, Pemalang Regency), hand-drawn batik (Galerie Petik small business, Tegal Regency), and troso weaving (Lompong Tekstil small business, Jepara Regency). Besides fashion entrepreneurs, key informants included suppliers, competitors, related government agencies, consumers, and buyers.

Data collection was conducted using both structured and open-ended questionnaires. The methods included in-depth interviews, observation, and documentation (Riptanti et al., 2024). Additionally, the collected data focused on factors related to threats from fashion product substitutes, competition among micro-entrepreneurs, supplier power, consumer power, and barriers to entry for new participants. The data analysed are relevant to Porter's Five Forces perspective and can be used to identify the challenges faced by entrepreneurs in Central Java comprehensively. This research examined the role of digital technology and product innovation in modifying the traditional Porter's Five Forces framework. The triangulated data were mapped, and the interrelationships among the variables were analysed.

Results And Discussion

MSMEs in traditional fabric-based fashion, such as lurik fabric, hand-drawn batik, ecoprint, and troso weaving, showed strong cultural traits. This business represented elements of Indonesian cultural heritage developed using creative and innovative methods. These types of fabrics were textile products developed into significant fashion business components, contributing to the creative economy. MSMEs selected for this research showed diverse business characteristics. Based on business capacity, most MSMEs fell into the small to medium category, with varying production capacities depending on the type of product. Hand-drawn batik and ecoprint business possessed lower production capacities than lurik and troso weaving due to the manual and detailed processes. In contrast, lurik and troso woven fabrics were produced with a larger capacity and depended on orders using Non-Machine Weaving Tools (ATBM) or other simple looms (Riptanti et al., 2024).

An organisation needs a good business process to support financial performance and ventures in designing activities to produce new products. The hand-drawn batik and ecoprint MSMEs used artisans such as batik makers, natural dye processors, and tailors. Lurik and Troso MSMEs included weavers, dyers, and finishing staff. Some businesses had in-house design and marketing teams. Hand-drawn batik and ecoprint products primarily targeted the middle to upper markets, including fashion exhibitions and export consumers. Meanwhile, lurik and troso products served local and national markets, often sold as fabric or finished clothing. These business collaborated with designers or fashion houses to correlate with modern consumer tastes. In terms of production continuity, hand-drawn batik and ecoprint MSMEs experienced fluctuations due to time-consuming processes and seasonal availability of natural materials. In contrast, lurik and troso

E-ISSN: 2735-9891 DOI: https://doi.org/10.5281/zenodo.17697665

weaving MSMEs enjoyed more stable production because the forces used more readily available raw materials and adopted a semi-mechanised method. In terms of design, hand-drawn batik emphasised classic, symbolic motifs with modern adaptations, ecoprint fabrics featured direct imprints of leaves and flowers, while woven and lurik fabrics showcased traditional geometric patterns (Riptanti et al., 2024).

Some MSMEs had adopted technologies, such as graphic design software in the troso weaving business, to create more varied motifs, even though most processes remained manual. Many business had not fully used digital media for marketing, relying primarily on direct orders from business partners. Most of fashion MSMEs had secured brand patents to protect and promote the products. Another significant characteristic was the environmental consciousness, where business used eco-friendly materials, such as participating in training and exhibitions, as well as empowering local communities, particularly women and housewives. These five fashion MSMEs were used to produce a Porter's diagram as mapped in Figure 1.

Figure 1. Porter's Five Forces Analysis Results of the Subjects

Determinants of Competition among Micro and Small Entrepreneurs

The development of fashion business have shown a significant increase over the years in the number and the variety of design motifs correlating with consumer demand and market trends. Various fashion products showed varying designs, characteristics, uniqueness, and quality, as well as a wide range of product types. Fashion business in Klaten, Pemalang, and Tegal Regencies were dominated by diverse batik business, which ranged from hand-drawn, stamped, to limited edition batik. Competition in batik industry was intense since each region housed large-scale business

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using printing methods dominating the market, with brands well-known to the public. Meanwhile, small scale business actors in Semarang City introduced innovations in the form of unique ecoprints on a range of products such as clothing, bags, shoes, and hats. This business did not face many competitors with strong quality and brands in the market. Troso woven fashion products were part of the famous industrial centres in Jepara Regency with ethnic patterned fabrics (Riptanti et al., 2024). Fashion business possessed many competitors, but each MSMEs actor had personal market. This correlated with the research of Anggraeni et al. (2021) that fashion business possessed personal market share.

The examined fashion business tended to produce products similar to competitors, which further gave consumers numerous alternatives. In this situation, implementing the right strategy was essential to remain competitive in the market. An effective strategy was to create a distinctive and unique product, attracting the attention of consumers and expanding market reach (Anggraeni et al., 2021) since the uniqueness could be a competitive advantage. Furthermore, changes in strategy made by an entrepreneur would be responded to by competitors, including lowering prices, quality improvements, increasing promotions, and others (Dobbs, 2014). MSMEs entrepreneurs were also required to innovate in managing the business in product design/motifs, production technology, and marketing strategies. This could increase consumer awareness and appeal, thereby increasing the possibility of purchase. Innovation strategies had been implemented by several producers with initial impacts perceived in increased turnover and product competitiveness.

Supplier Power Determinants

Batik products in Klaten Regency used premise cotton fabric and natural dyes. The process of making batik with natural dyes was more environmentally friendly and held special appeal in the market. This correlated with research by Muslimah et al. (2020) in Klaten, asserting that the use of natural dyes was considered an application of clean production, reducing the impact of environmental pollution. Furthermore, Batik artisans in Pemalang and Tegal Regencies used more synthetic dyes, which allowed for longer-lasting and wider choice of colour variations. Ecoprint products developed in Semarang City used cotton mori fabric and natural dyes obtained from wild plant leaves such as mimosa, teak, indigo, sappanwood, mango, butterfly pea flowers, and mangosteen peel. This ecoprint method carries an environmentally friendly concept to produce unique batik motifs obtained directly from natural leaf prints or other plant parts. Meanwhile, troso weaving produced in Jepara Regency used yarn, natural dyes, and synthetics (Riptanti et al., 2024).

Substitute raw materials were easily sourced by the batik and ecoprint businesses since many producers sell fabric and dye inputs. Conversely, the troso woven business had difficulty sourcing specific imported yarns, affecting supplier management. Partners were selected by considering competitive prices and better service without losing quality, since batik and ecoprint producers were not dependent on a supplier (Fahira et al., 2025). This signified low supplier bargaining power (Li et al., 2024). A market with numerous suppliers allowed producers to select the most profitable partner based on quality and price. Furthermore, different conditions occurred in the troso weaving producers due to limited yarn suppliers with certain specifications. This caused the producers to have a high dependence on the main supplier, making the bargaining power stronger (Li et al., 2024). To manage this dependency, manufacturers implemented strategies focused on

E-ISSN: 2735-9891 DOI: https://doi.org/10.5281/zenodo.17697665

maintaining strong relationships with the suppliers to ensure consistent raw material availability in terms of quantity, price, and delivery timelines.

Barriers to Entry for New Entrants

Businesses could freely enter or exit an industry in a general context. However, certain characteristics allowed the profits obtained by an existing business to be maintained and prevented the entry of new competitors. Regarding entry barriers, Porter (2008) identified six main sources of entry barriers, namely economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, and unfavourable costs regardless of scale.

The fashion business required considerable capital and skills in batik making. Fahira et al. (2025) stated that the process of making traditional batik required a fairly large initial investment for the purchase of equipment and quality raw materials. Furthermore, the ecoprint business offered advantages with relatively small capital because raw materials were relatively easy to obtain and more affordable. The troso weaving business required a large amount of capital and skills in weaving and arranging threads into certain motifs (Riptanti et al., 2024).

Brand identity was important for a fashion business as an identifier, branding and building brand image, as well as differentiating product quality from competitors. The policies of each regional government varied in supporting fashion businesses. Klaten Regency Government assisted in the form of product marketing through batik exhibitions and licensing assistance. Pemalang Regency also provided marketing access and licensing support, while Tegal mandated civil servants to wear local batik every Tuesday and Friday.

Porter (2008) stated that the batik and troso weaving business had high barriers to entry due to the substantial capital requirements, while ecoprint did not face the same constraints. However, ecoprint fabrics experienced significant entry barriers from the perspective of the production process because processing natural dyes was not straightforward. The fashion business examined in this research presented relatively high entry barriers to new entrants. Despite the favourable conditions, MSME producers remained attentive to the necessary changes, particularly technological innovations in natural dye processing, including improved extraction methods from plants to obtain more stable colours.

Determinants of Threats of Substitute Products/Services

Increased product diversity and new entrants intensified competition in fashion market, affecting well-known brands and micro-scale producers. The abundance of substitute products with varying prices and quality provides more choices and increases the likelihood of switching products. According to Porter (2008), the substitutes were a serious threat to business continuity. However, not all manufacturers were fully aware of the potential threat from substitute products on the market.

Batik industry in Klaten and Pemalang Regencies faced quite high competition. Consumers could easily find substitute products with different patterns, materials, and prices (Sari, 2022). Meanwhile, batik from Tegal Regency had a more unique position because the motifs produced

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were not commonly found in the market. This uniqueness provided a competitive advantage for entrepreneurs in maintaining the market (Anggraeni et al., 2021). Ecoprint and troso weaving products possessed several substitute materials on the market with varying quality and prices. The large number of similar products on the market with varying quality and prices led entrepreneurs to think creatively in creating added value to remain competitive. The condition showed that all MSMEs, except batik, possessed a high level of competition. Business actors responded to the pressure by producing innovative products, improving batik image designs through exploration of ethnic patterns, modern design elements, and colouring methods. Ibrahim (2024) asserted that the use of modern styles in patterns and colours on traditional fabrics was an innovative method to restore cultural heritage values and position Nigeria as a global centre for Afrocentric.

Determinants of Buyer Power

Some fashion product entrepreneurs applied different pricing strategies based on purchase volume and type, including bulk buyers, wholesalers, government guests, and designers. The strategy aimed to expand market segments and increase sales volume. Furthermore, the examined fashion business offered products similar to those produced by the competitors. This allowed consumers the flexibility to purchase from others, reflecting high buyer power (Goyal, 2020). The issue could be addressed by producing distinctive or unique products which were acceptable in the market. The batik business in Klaten Regency sets prices based on the level of motif complexity. Setting a higher price was intended to provide greater appreciation for batik products, which require high skills and a more complex production process. Batik producers also performed this in Tegal, where the price was set according to the high artwork. The majority of consumers were more influenced by the uniqueness of the raw materials and motifs, as well as the quality of the fabric. Li et al. (2024) emphasised that batik producers and designers needed to understand consumer demands by enhancing aesthetics, creativity, and the use of environmentally friendly materials to produce high-quality as well as unique products. The same conditions applied to ecoprint and troso weaving products, whose market value was shaped by the quality, uniqueness, and motifs. "This result was consistent with Sari's (2022) research in Wedi, Klaten, where ecoprint-based batik commands a higher price due to the lengthy process involved in developing motifs and colours from natural materials.

Dulčić et al. (2012) proposed three additional forces driving industry competition: globalisation, digitalisation, and deregulation. This research also discussed the role of innovation as proposed by Johnson (2014) in adapting to developments in the current global era (Isabelle et al., 2020). The results related to digital technology and product innovation among MSMEs were presented as subjects.

The Role of Digital Technology

The community interacted with digital technologies, ranging from the internet to smartphones, on a near-daily basis. The rapid advancement of digital technology facilitated easier access to information, including areas such as marketing and online payment systems. These advancements offered promising opportunities for business actors to market the products through various digital platforms and conduct market analysis to determine the most effective strategies.

E-ISSN: 2735-9891 DOI: https://doi.org/10.5281/zenodo.17697665

Based on the data analysis, fashion MSMEs had not fully optimised the use of digital technology for marketing. This business relied more on partners and distributors for product marketing (Mohapatra, 2012). However, MSMEs actors still created e-commerce accounts as a step to start marketing the products through digital technology. Many actors have utilised e-commerce platforms such as Shopee and Tokopedia to sell fashion products. Sales through e-commerce were not comparable to those in offline channels, as batik-themed fashion products often carried price points that were less competitive than those of non-batik alternatives. The exit barriers identified for each business were primarily internal, including the status as a legacy or heritage business committed to cultural preservation, or the establishment of a personal passion for fashion. In addition, many producers maintained loyal retailers and distributors who consistently placed substantial resale orders. This situation made online sales less significant in comparison.

The Role of Product Innovation

Product innovation was closely tied to the introduction of new products. Innovation included original, improved, and modified products, as well as new brands that evolved through research and development. The concept must be consumer-oriented and distinct from competitors to establish a competitive advantage and sustain marketing efforts. However, MSME entrepreneurs were slow in responding to market needs through innovation. Every business must adapt to changing consumer preferences and demands to gain a competitive edge.

As a strategic step in expanding and maintaining the market, fashion MSMEs attempted to innovate products in various aspects. Innovation included improving the design of images or motifs on batik, such as exploring more diverse ethnic patterns, developing modern designs correlated with market trends, and experimenting with colouring methods to produce a more attractive and exclusive appearance. The concept was considered effective in maintaining business sustainability and in attracting the attention of increasingly selective consumers in the fashion market. Furthermore, the fashion business has not relied on digital technology. Accounts on platforms such as Facebook, Instagram, Shopee, and Tokopedia were established primarily to avoid being perceived as lagging behind digital trends. Social media did not serve as a primary promotional or transaction medium.

The strength of this research lies in the application of Porter's Five Forces, which has been modified to incorporate innovation and digitalisation in response to increasingly tight competition. These two new forces must be considered in the modern business landscape. Digitalisation is essential for business development, but the nature necessitates distinct strategies for the implementation.

This research is limited to the fashion business in only five districts/cities in Central Java, with a single sample drawn from each location. The results may not sufficiently represent the overall condition of the business in the region. Future research should incorporate a greater variety of fashion and increase the sample size to better capture the diversity of products and the varying scales of existing businesses.

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Conclusions

In conclusion, Porter's five forces remain relevant for use in strategic analysis for fashion MSMEs. However, adjustments are needed to incorporate elements of digitalisation and innovation in response to the demands of globalisation. The primary impact on business development is not yet fully realised, as innovation and digitalisation remain complementary rather than central to business operations.

The relevance of Porter's Five Forces in the development of fashion MSMEs is optimised through more intensive use of digitalisation and sustainable innovation development. Furthermore, training and mentoring improve the capacity to implement digital technology and innovation, as well as strengthen collaboration between entrepreneurs to increase adaptation and competitiveness in the global market.

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