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ANALYSIS OF BUDGET EFFECTIVENESS AND ROI (RETURN ON INVESTMENT) IN DIGITAL MARKETING FOR LABUAN BAJO COFFEE SMES

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Abstract

This community engagement program aims to analyze and improve the effectiveness of digital marketing budgets and return on Investment (ROI) for coffee Micro, Small, and Medium Enterprises (MSMEs) in Labuan Bajo, Indonesia. As a super-priority tourism destination, Labuan Bajo coffee MSMEs increasingly rely on digital marketing but often without proper budget management or ROI measurement, resulting in inefficient spending. The target audience for this program was 25 coffee SME owners in Labuan Bajo. The implementation methods included interactive workshops, direct mentoring on budget allocation, and practical training on using analytics tools (such as Meta Business Suite and Google Analytics) to calculate ROI. The results show a significant improvement in participants' ability to set measurable marketing goals, track spending, and calculate ROI. Before the program, only 20% of participants tracked their digital ad spending against sales; after the program, 85% implemented basic ROI calculations. This engagement demonstrates that enhancing digital financial literacy is crucial for SMEs to optimize their marketing investments and compete effectively in a prime tourism area.

Keywords: *Community Engagement, Digital Marketing, ROI, Budget Effectiveness, Coffee MSMEs, Labuan Bajo*

INTRODUCTION

Labuan Bajo, located in the West Manggarai Regency, East Nusa Tenggara, has been designated by the government as one of Indonesia's five Super Priority Tourism Destinations (DPSP) (Kemenparekraf, 2022). This designation has triggered rapid economic growth, especially in the tourism sector and its supporting creative industries, including coffee micro, small, and medium enterprises (MSMEs). Local coffee, such as Flores Manggarai Coffee, has excellent potential to become a flagship product for both domestic and international tourists.

As the tourist influx increases, business competition is becoming fiercer. Coffee MSMEs in Labuan Bajo are being challenged to adapt to technological advancements, particularly in their marketing strategies. Digital marketing (through social media, marketplaces, and online advertising) has become a key tool for reaching a wider audience (Chaffey et al., 2009). However, many MSMEs adopt digital marketing merely to "follow the trend" without an adequate understanding of strategy, budget management, and performance measurement.

This gap is hazardous in a high-growth tourism area. The pressure to be "visible" to a transient and international audience often leads MSMEs to invest heavily in social media advertising (e.g., boosting posts) to gain "vanity metrics" such as likes, shares, and followers. While these metrics provide a sense of presence, they often fail to correlate with tangible business outcomes such as in-store visits or online sales (Arantes & Sousa, 2021). This disconnect results in significant budget waste, as scarce financial resources are allocated to activities with no measurable return, hindering the MSMEs' ability to scale sustainably.

A study by Wijoyo et al. (2021) Shows that the main challenge for MSMEs in digital marketing is not technology adoption, but the inability to measure their effectiveness. MSMEs often spend their budgets on boosted social media posts without a clear target and without knowing whether the expenditure generates comparable sales. As a result, marketing budgets are ineffective and ROI (Return on Investment) is unmeasurable.

This low literacy in measuring ROI results in wasted resources that could be allocated to product development or other business areas (Purwantini & Anisa, 2018). Therefore, this community engagement program was designed to provide practical education and mentoring to coffee MSME owners in Labuan Bajo on how to analyze budget effectiveness and calculate the ROI of their digital marketing activities.

The primary objective of this engagement was to shift the participants' mindset from seeing digital marketing as an "expense" to viewing it as a measurable "investment." The program was specifically designed to bridge the gap between digital activity and financial performance by equipping owners with simple, accessible tools and frameworks. By focusing on ROI, the program aimed to empower these MSMEs to make data-driven decisions, optimize their limited marketing budgets, and ultimately enhance their competitiveness and profitability in the rapidly evolving Labuan Bajo tourism ecosystem.

The context of Labuan Bajo's market further complicates this challenge. It is not a standard urban market with a stable, predictable customer base. Instead, it is highly event-driven (e.g., tied to international conferences or Komodo National Park tour schedules) and serves a transient international clientele. This volatility means that broad, unfocused marketing is exceptionally inefficient. A deep understanding of ROI enables an MSME to reallocate budget to campaigns targeting specific, quickly, high-value tourist segments in real time, a capability critical for survival and growth (Arantes & Sousa, 2021).

Coffee MSMEs, in particular, face a unique marketing challenge. They are not just selling a commodity (coffee beans) but an experience, such as the story of Flores coffee, the ambiance of a local café, or the craft of a local roaster (JOHNSTON, 2010). This experiential product is challenging to market. Owners may intuitively spend budgets on beautiful, aesthetic "content" (photos, videos), but lack a mechanism to determine whether this content translates into actual sales. This ambiguity makes them highly susceptible to inefficient spending without a clear framework for measuring the return on their creative and financial investments.

The literature on MSME development often highlights the 'digital divide' in terms of access to technology or basic digital literacy (i.e., how to post on Instagram). However, this program addresses a more nuanced gap: the intersection of digital literacy and financial literacy. As the OECD (2021) notes, the digital transformation of SMEs is often hampered not by a lack of tools but by a lack of managerial and financial skills to profit from those tools. This program is built on the premise that teaching an MSME how to calculate ROI is as crucial as teaching them how to run an ad campaign.

Therefore, this community engagement initiative was established to address the identified critical deficiency. The core problem is the prevalent lack of financial measurement in digital marketing practices among Labuan Bajo's coffee MSMEs. The intervention hypothesizes that by providing targeted, practical, and simplified training on budget effectiveness and ROI calculation, these MSMEs can significantly enhance their marketing efficiency, reduce financial waste, and improve their overall profitability and long-term sustainability.

METHOD

This community engagement activity used the Participatory Action Research (PAR) method, in which the engagement team was directly involved in the education and mentoring process.

1. Location and Target Audience Determination

   The target audience was 25 coffee MSME owners (coffee shop owners, ground coffee producers, and roasteries) in the Labuan Bajo area. The selection was based on data from the local Office of Cooperatives, MSMEs, and Trade, as well as on preliminary observations indicating active social media promotion.

2. Development of Educational Materials

   Materials were prepared practically and focused on the participants' immediate needs, covering:

   a. Setting digital marketing goals (SMART Goals). Basics of digital marketing budget allocation. Introduction to key metrics (CTR, CPC, CPA).
   b. How to calculate simple ROI:

$$ROI = \frac{(Revenue\ from\ Marketing - Marketing\ Cost)}{Marketing\ Cost}\ x\ 100\%$$

c. Case studies: Analyzing effective and ineffective ads.
d. Practice using basic analytics dashboards (Meta Business Suite).

3. Activity Implementation Stages

The activity was carried out in three stages:

a. Socialization and Pre-test. Administering an initial questionnaire (pre-test) to measure participants' basic understanding of digital marketing budgets and ROI.
b. Workshop and Simulation. A one-day interactive face-to-face training session covering material delivery and ROI calculation simulations based on real case studies.
c. Mentoring. For two weeks after the workshop, the engagement team provided online mentoring (via a WhatsApp group) and offline assistance (visits) to help participants apply the material to their businesses, particularly for tracking small-scale paid advertising campaigns.

4. Evaluation Stage

Evaluation was conducted through a post-test to measure knowledge improvement, as well as a comparative analysis of pre-test and post-test data. A qualitative evaluation was also conducted through brief interviews at the end of the mentoring period to measure behavioral changes in budget management.

RESULT AND DISCUSSION

This community engagement activity was attended by 25 coffee MSME owners in Labuan Bajo. Based on the pre-test results, 80% of participants (20 people) had used paid advertising (such as Instagram Ads or Facebook Ads). However, only 20% (5 people) had attempted to track the relationship between advertising costs and revenue. Most participants (75%) measured advertising success solely by the number of likes or new followers, not by sales conversions. After the workshop and mentoring period, the post-test results showed a significant improvement in understanding.

85% of participants (21 people) were able to explain and calculate the basic ROI formula for their digital marketing campaigns.

90% of participants (23 people) stated they now understood the importance of allocating a separate budget for digital marketing and avoiding mixing it with daily operational costs.

During the mentoring period, 10 participants actively consulted on their campaign results. It was found that by implementing more specific audience targeting (e.g., tourists who had just arrived in Labuan Bajo) and focusing on a clear call to action (CTA), 7 of these 10 participants achieved a positive ROI (albeit on a small scale) for the first time.

The mentoring sessions provided deeper qualitative insights. A significant "a-ha" moment for many participants was distinguishing between "boosting a post" and "running a targeted campaign." They realized that boosting posts to their existing followers (who likely already knew about their brand) was an inefficient use of budget. Through mentoring, they were guided to use ad platforms to target specific demographics, such as "tourists in Labuan Bajo" or "people interested in specialty coffee," and to create targeted offers (e.g., "Show this ad for a 10% discount"). This shifted their focus from broad awareness to direct conversion, which is the foundation of calculating a meaningful ROI.

Furthermore, this newfound analytical skill has broader implications for business strategy. By understanding which campaigns deliver a positive ROI, MSME owners can now make data-driven decisions rather than relying on intuition or trends (Rautenbach et al., 2022). For instance, a participant noted they could now confidently allocate more budget to Instagram ads targeting tourists (which showed a 3:1 ROI) and reduce spending on Facebook ads targeting locals (which showed a negative ROI for their specific product). This capability empowers them to optimize resource allocation, improve cash flow, and build a more resilient business model capable of competing against larger, well-funded chain establishments entering the Labuan Bajo market.

The discussion of these results indicates that the main challenge for MSMEs is not access to technology, but digital analytical and financial literacy. This finding is consistent with Taiminen & Karjaluoto (2015), who stated that SME adoption of digital channels is often not matched by the analytical ability to measure performance. Pelaku UMKM di Labuan Bajo memiliki tantangan unik karena harus menargetkan dua pasar yang sangat berbeda: wisatawan (transaksional jangka pendek) dan penduduk lokal (loyalitas jangka panjang). Edukasi mengenai ROI membantu mereka mengalokasikan anggaran secara lebih efektif.

A limitation of this activity was the short mentoring period (two weeks), which was only sufficient to measure the ROI of short-term campaigns. The budget effectiveness for long-term strategies such as Search Engine Optimization (SEO) or organic content marketing, which build value over months, could not be measured within the scope of this program.

A deeper analysis of the pre-test data is warranted. The finding that 75% of participants focused on "vanity metrics" like likes and followers reveals a fundamental misunderstanding of the sales funnel. They equated "likes" with "customers" and social validation with business performance. This behavior is symptomatic of early-stage digital adoption, in which the immediate, visible feedback from social media platforms is often mistaken for tangible business impact (Dwivedi et al., 2021). This program's intervention was critical in redirecting their focus from engagement metrics to financial metrics.

The success of the post-test (85% calculation-capable) can be attributed to the program's simplicity. By intentionally avoiding complex jargon (e.g., "multi-touch attribution," "customer lifetime value") and focusing relentlessly on the simple formula: ROI = (Revenue - Cost) / Cost, the program empowered rather than overwhelmed participants. This practical, "ground-up" approach proved highly effective for adult learners who need immediate, applicable tools for their business, demonstrating that complex financial concepts can be successfully taught if simplified to their core utility.

The 7 participants who achieved a positive ROI during the mentoring period provided actionable case studies. A common success factor was their pivot from using the "Engagement" or "Traffic" ad objectives on social media platforms (which they used pre-workshop) to using "Conversions" or "Store Visits" (as guided). One participant, a small-batch roastery owner, reported a 150% ROI by running a small, targeted campaign aimed at "Hotel and Guesthouse Procurement Managers in Labuan Bajo" with a bulk discount offer—a B2B segment they had previously completely ignored in their digital marketing efforts.

However, a significant challenge emerged during the mentoring: data attribution. While participants could now calculate ROI, they struggled to collect the "Revenue from Marketing" data. They often had no systematic way to ask in-store customers, "How did you find us?" To address this, the mentoring had to quickly pivot to teaching basic tracking mechanisms, such as creating unique discount codes for specific ads (e.g., "Use code 'IGPROMO10'") or training staff to ask at the point of sale. This highlights that teaching ROI calculation is insufficient on its own; it must be paired with teaching basic data attribution practices, which remains a key area for future engagement programs.

CONCLUSION

This community engagement program successfully improved the understanding and practical skills of coffee MSME owners in Labuan Bajo in analyzing budget effectiveness and calculating digital marketing ROI. There was a shift in participants' mindset from simply "advertising" to "investing in measurable marketing." The workshop approach, combined with personal mentoring, proved effective in enhancing MSMEs' digital analytical literacy. This improved capability is crucial for local coffee MSMEs to optimize their limited resources and compete soundly in a super-priority tourism destination.

It is important to acknowledge the limitations of this program. The two-week mentoring period was effective for short-term ad campaigns but insufficient to analyze the ROI of long-term strategies such as content marketing, Search Engine Optimization (SEO), or customer lifetime value (CLV). These more complex strategies require sustained tracking over months or even years. Furthermore, the program focused on basic ROI calculations, and more advanced participants may require future training on complex attribution models (e.g., multi-touch attribution) to understand their customer journey fully.

Ultimately, this intervention represents a critical investment in Labuan Bajo's local human capital. Empowering MSMEs with digital financial literacy is as important as providing access to capital or infrastructure. By learning to measure what matters, these local coffee entrepreneurs can now participate more effectively in the digital economy, ensuring that the economic benefits of the "Super Priority Tourism Destination" status are distributed more equitably and that locally owned business growth is sustainable. This program serves as a replicable model for MSME empowerment in other emerging tourism destinations across Indonesia.

In conclusion, this community engagement program demonstrated that a focused, practical intervention on digital marketing ROI can yield immediate and significant improvements in MSME owners' analytical capabilities. The shift from intuition-based spending ("I feel like this ad is working") to data-driven investment ("I know this ad generated a 150% return") is the single most critical outcome. This capability moves MSMEs from a passive to an active role in their own business development.

For the specific context of Labuan Bajo, a destination characterized by high growth, intense competition, and a transient customer base, this skill is not merely beneficial—it is essential for survival. MSMEs that fail to measure and optimize their digital spending will inevitably be outcompeted by larger, well-funded national and international chains that possess sophisticated marketing analytics departments. This program provides a necessary, practical counterbalance to level the playing field for local entrepreneurs.

Beyond the time constraints for measuring long-term ROI, the program also did not fully address the creative component of digital marketing. A high-ROI ad campaign is a function of both effective targeting and measurement (as this program taught) and compelling creative (i.e., compelling ad copy, visuals, and offers). Participants could now identify a failing ad (negative ROI), but they were not necessarily equipped with the creative skills to fix it. Future programs should consider integrating introductory digital creative and copywriting workshops alongside financial measurement training.

Finally, this intervention serves as a successful pilot study. The results strongly advocate integrating "digital financial literacy" into all standard MSME training packages, especially those sponsored by government, tourism boards, or financial institutions. The long-term sustainability of local enterprise in the digital age depends on this dual competency: the ability to create and participate (digital literacy) and the ability to calculate and profit (financial literacy). Future research and engagement should focus on scaling this model and measuring its long-term impact on MSME revenue and longevity.

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