

AI-BASED DIGITAL MARKETING STRATEGIES AND THEIR IMPACT ON SME GROWTH: A STRATEGIC ANALYSIS

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Abstract

Artificial Intelligence (AI) is transforming digital marketing practices and significantly influencing the growth of Small and Medium Enterprises (SMEs). The purpose of this study is to examine the impact of AI-based digital marketing strategies on SME growth, with a focus on strategic applications, performance outcomes, and business competitiveness. The introduction highlights the increasing adoption of AI tools such as predictive analytics, chatbots, recommendation systems, and automated advertising, which enable SMEs to improve customer targeting and operational efficiency. A qualitative research approach is adopted, relying on secondary data from academic literature, industry reports, and case studies to analyze how AI-driven marketing strategies contribute to business expansion and customer engagement. The findings indicate that AI enhances decision-making, personalization, and marketing efficiency, leading to improved revenue and market reach for SMEs. The conclusion emphasizes that AI is a critical enabler of SME competitiveness. The study recommends adopting affordable AI tools, improving digital skills, and ensuring ethical data usage for sustainable growth.

Introduction

The rapid advancement of digital technologies has transformed the way businesses communicate with customers, market products, and create value. Digital marketing has evolved from basic online advertising and email campaigns to sophisticated data-driven strategies that leverage emerging technologies such as Artificial Intelligence (AI), machine learning, and predictive analytics. The widespread adoption of internet technologies, social media platforms, and mobile devices has significantly changed consumer behavior, requiring businesses to adopt innovative marketing approaches to remain competitive (Chaffey & Ellis-Chadwick, 2019). Artificial Intelligence has emerged as one of the most influential technological innovations shaping

modern business operations. AI refers to computer systems capable of performing tasks that traditionally require human intelligence, including learning, problem-solving, decision-making, and pattern recognition (Russell & Norvig, 2021). In the field of digital marketing, AI technologies enable organizations to analyze large volumes of customer data, automate repetitive tasks, personalize customer experiences, and improve marketing effectiveness. AI-powered tools such as chatbots, recommendation systems, sentiment analysis, predictive analytics, and marketing automation platforms have become increasingly important for organizations seeking to enhance customer engagement and optimize business performance (Davenport et al., 2020).

Small and Medium Enterprises (SMEs) play a critical role in economic development worldwide. SMEs contribute significantly to employment generation, innovation, poverty reduction, and economic growth in both developed and developing countries (Organisation for Economic Co-operation and Development [OECD], 2021). Despite their economic importance, SMEs often face challenges related to limited financial resources, restricted access to advanced technologies, and intense market competition. Consequently, the adoption of AI-based digital marketing strategies presents an opportunity for SMEs to improve operational efficiency, enhance customer relationships, and achieve sustainable growth. By leveraging AI technologies, SMEs can compete more effectively with larger organizations while optimizing marketing expenditures and improving customer targeting capabilities (Verhoef et al., 2021). The integration of AI into digital marketing has become increasingly relevant as businesses seek data-driven solutions to improve decision-making and customer engagement. Therefore, understanding the impact of AI-based digital marketing strategies on SME growth is essential for both academic research and practical business applications.

Small and Medium Enterprises (SMEs) face numerous challenges in developing effective marketing strategies due to limited financial resources, insufficient technical expertise, and increasing competition in digital marketplaces. Traditional marketing approaches often require substantial investments and may not provide the level of customer insights necessary to compete effectively in rapidly changing business environments. As consumer expectations continue to evolve, SMEs must find innovative ways to attract, engage, and retain customers while maintaining cost efficiency (Chaffey & Ellis-Chadwick, 2019). Artificial Intelligence offers significant opportunities to address these challenges by enabling personalized marketing, automated customer interactions, predictive analytics, and improved decision-making processes. However, many SMEs remain uncertain about the strategic value, implementation requirements, and potential outcomes associated

with AI adoption. Furthermore, existing research has largely focused on large corporations, leaving limited evidence regarding the specific impact of AI-driven digital marketing strategies on SME growth and competitiveness. This research seeks to address this gap by examining how AI-based digital marketing strategies influence business performance, customer engagement, and sustainable growth among SMEs.

This study is significant because it contributes to the growing body of knowledge regarding the application of Artificial Intelligence in digital marketing and its influence on SME growth. As digital transformation continues to reshape business environments, understanding how AI technologies can support marketing effectiveness has become increasingly important. The findings of this research will provide valuable insights into the strategic role of AI-based marketing tools in enhancing business performance, customer satisfaction, and competitive advantage. From a practical perspective, the study will assist SME owners, managers, and marketing professionals in understanding the benefits and challenges associated with AI adoption. The research will highlight how AI technologies such as predictive analytics, chatbots, recommendation systems, and marketing automation can improve customer targeting, operational efficiency, and revenue generation. These insights may support informed decision-making regarding technology investments and digital transformation initiatives.

From an academic perspective, the study addresses a research gap by focusing specifically on SMEs rather than large multinational corporations. The findings will contribute to theoretical discussions related to digital marketing, innovation management, and technology adoption. Additionally, policymakers and business development organizations may use the study's findings to design programs and policies that encourage AI adoption among SMEs, thereby promoting economic growth and innovation (OECD, 2021). This study focuses on the impact of AI-based digital marketing strategies on the growth and competitiveness of Small and Medium Enterprises. The research examines key AI applications in digital marketing, including

predictive analytics, chatbots, recommendation systems, marketing automation, and programmatic advertising. The study adopts a qualitative research approach based on secondary data obtained from academic journals, books, industry reports, and published case studies.

The scope of the study is limited to the strategic use of AI in digital marketing and its implications for SME performance. It does not investigate the technical development of AI algorithms or conduct primary data collection through surveys or interviews. Furthermore, the study relies on existing literature and secondary sources, which may limit the ability to capture recent technological developments and industry-specific variations. Another limitation is that findings may not be equally applicable across all countries and industries due to differences in technological infrastructure, regulatory environments, and organizational capabilities. Despite these limitations, the study provides valuable insights into the role of AI-driven marketing strategies in supporting SME growth and competitiveness.

Literature Review

Artificial Intelligence (AI) refers to the capability of computer systems to perform tasks that normally require human intelligence, including learning, reasoning, decision-making, and problem-solving. The concept of AI originated from the pioneering work of Alan Turing, who proposed the Turing Test as a method of evaluating machine intelligence (Turing, 1950). Since then, AI has evolved significantly through advances in computing power, data availability, and machine learning algorithms. Modern AI systems are capable of analyzing vast amounts of data, identifying patterns, and generating insights that support strategic decision-making across various industries. Russell and Norvig (2021) describe AI as a multidisciplinary field that integrates computer science, mathematics, cognitive psychology, and data analytics to create intelligent systems. In recent years, AI has become a fundamental component of digital transformation, enabling organizations to automate processes, improve efficiency, and enhance customer experiences. The increasing

accessibility of AI technologies has encouraged businesses of all sizes, including SMEs, to integrate AI into their operational and marketing activities. Digital marketing has evolved from traditional online advertising to sophisticated, data-driven marketing practices that leverage emerging technologies. According to Chaffey and Ellis-Chadwick (2019), digital marketing involves the use of digital channels, platforms, and technologies to communicate with customers, promote products, and achieve organizational objectives. The emergence of AI has transformed digital marketing by enabling businesses to collect, process, and analyze customer data more efficiently than ever before. AI allows marketers to understand consumer behavior, predict purchasing intentions, and deliver personalized content in real time. Organizations can now use machine learning algorithms to optimize marketing campaigns, improve customer segmentation, and automate routine tasks. Consequently, AI has become a strategic tool for enhancing marketing effectiveness and strengthening customer relationships. For SMEs, AI-powered digital marketing offers an opportunity to compete with larger organizations by improving efficiency and reducing operational costs.

AI-based digital marketing strategies have become increasingly important in helping organizations achieve competitive advantages. One of the most widely adopted strategies is predictive analytics, which utilizes historical and real-time data to forecast customer behavior and market trends. Predictive analytics enables businesses to anticipate customer needs, improve demand forecasting, and optimize marketing investments (Davenport et al., 2020). Another significant AI application is the use of chatbots. AI-powered chatbots provide automated customer support, answer inquiries, and assist consumers throughout their purchasing journey.

These tools improve customer satisfaction by offering immediate responses while reducing operational costs for businesses. Marketing automation is another important AI-driven strategy that enables organizations to automate repetitive marketing activities such as email

campaigns, social media management, and customer segmentation. Automation improves efficiency and allows marketers to focus on strategic decision-making rather than routine administrative tasks. Personalized recommendation systems have also become a key feature of AI-driven marketing. These systems analyze customer preferences, browsing histories, and purchasing patterns to recommend relevant products and services. Personalized recommendations improve customer experiences and increase conversion rates by delivering content that aligns with individual interests. Programmatic advertising represents another significant advancement in AI-based marketing. Through automated bidding systems and real-time data analysis, programmatic advertising enables businesses to deliver targeted advertisements to specific audiences. This approach enhances advertising effectiveness and improves return on investment by ensuring that marketing messages reach the most relevant consumers.

Customer engagement is a critical factor influencing business success, particularly in highly competitive digital markets. AI technologies enable organizations to create personalized interactions that strengthen relationships with customers. According to Kumar et al. (2019), AI enhances customer engagement by providing tailored recommendations, predictive customer service, and personalized communication strategies. Machine learning algorithms can analyze customer preferences and behaviors to identify patterns that support targeted marketing efforts. Additionally, AI-powered chatbots and virtual assistants facilitate continuous customer interaction, improving responsiveness and customer satisfaction. Through sentiment analysis and social media monitoring, organizations can gain valuable insights into customer perceptions and preferences. These capabilities enable businesses to develop more effective engagement strategies that increase customer loyalty and long-term profitability. For SMEs, improved customer engagement is particularly important because maintaining strong customer relationships often contributes to sustainable business growth. AI technologies provide SMEs with affordable tools

to deliver personalized experiences that were previously accessible only to large corporations with substantial marketing resources.

The relationship between AI adoption and organizational performance has received increasing attention in academic research. Studies suggest that AI technologies contribute to improved operational efficiency, enhanced decision-making, and increased business competitiveness. Davenport et al. (2020) argue that AI enables organizations to transform marketing activities through data-driven decision-making and advanced analytical capabilities. For SMEs, AI adoption can result in improved marketing performance, higher customer retention rates, and increased revenue generation. AI-powered tools help SMEs identify market opportunities, optimize customer acquisition strategies, and allocate resources more effectively. Furthermore, AI technologies support innovation by enabling organizations to respond quickly to changing market conditions and customer demands. Despite these benefits, SMEs may face challenges related to implementation costs, technical expertise, and organizational readiness. Nevertheless, evidence suggests that businesses that successfully integrate AI into their marketing strategies often achieve superior performance outcomes compared to competitors relying solely on traditional marketing methods.

The Technology Acceptance Model (TAM) developed by Davis (1989) provides a useful framework for understanding the adoption of AI technologies within organizations. The theory suggests that individuals are more likely to adopt new technologies when they perceive them as useful and easy to use. Perceived usefulness refers to the extent to which a technology improves job performance, while perceived ease of use relates to the effort required to utilize the technology effectively. In the context of SMEs, TAM helps explain why some organizations embrace AI-driven marketing solutions while others remain hesitant. Factors such as technological knowledge, organizational culture, management support, and perceived benefits significantly influence AI adoption decisions. Understanding these factors is

essential for promoting successful AI implementation among SMEs.

Research Gap

Although existing literature highlights the benefits of AI in digital marketing, most studies primarily focus on large organizations and multinational corporations. Comparatively limited research has examined how AI-based digital marketing strategies specifically influence SME growth and competitiveness. Furthermore, many studies focus on individual AI applications rather than providing a comprehensive strategic analysis of AI-driven marketing practices. The existing literature also provides limited insight into how SMEs can overcome barriers to AI adoption while maximizing business growth opportunities. Therefore, this study seeks to address this gap by exploring the strategic role of AI-based digital marketing strategies in enhancing SME performance, customer engagement, and long-term competitiveness.

Theoretical Framework

The Technology Acceptance Model (TAM), developed by Davis (1989), is one of the most widely used theories for explaining technology adoption and user behavior. TAM proposes that an individual's intention to adopt and use a technology is primarily influenced by two factors: perceived usefulness and perceived ease of use. Perceived usefulness refers to the degree to which a person believes that a particular technology will enhance job performance, while perceived ease of use refers to the extent to which the technology is perceived as effortless to operate. In the context of Artificial Intelligence (AI)-based digital marketing, TAM provides a valuable framework for understanding why SMEs choose to adopt AI technologies. SME owners and managers are more likely to implement AI-driven marketing solutions when they perceive these tools as capable of improving marketing effectiveness, increasing customer engagement, and enhancing business performance. Similarly, if AI applications such as chatbots, predictive analytics, and marketing automation systems are easy to use and integrate into existing business processes, their adoption

becomes more likely. The relevance of TAM to this study lies in its ability to explain the behavioral and organizational factors influencing AI adoption among SMEs. By understanding the perceived benefits and usability of AI technologies, researchers can better evaluate how AI-based digital marketing strategies contribute to business growth and competitive performance (Davis, 1989).

Resource-Based View (RBV)

The Resource-Based View (RBV), proposed by Barney (1991), argues that organizational success depends on the possession and effective utilization of valuable, rare, inimitable, and non-substitutable resources. According to RBV, firms achieve sustainable competitive advantage when they develop unique capabilities and resources that competitors cannot easily replicate. Within the context of digital marketing, AI technologies can be viewed as strategic organizational resources. AI-powered tools enable SMEs to analyze customer data, automate marketing activities, improve decision-making, and deliver personalized customer experiences. These capabilities enhance organizational efficiency and create competitive advantages that contribute to business growth. The RBV framework suggests that SMEs that successfully acquire and integrate AI technologies into their marketing strategies can strengthen their market position and improve performance outcomes. Furthermore, the ability to effectively utilize AI-based resources may differentiate successful SMEs from competitors that rely on traditional marketing approaches. Therefore, RBV provides a theoretical foundation for understanding how AI-driven marketing capabilities contribute to sustainable growth and long-term competitiveness (Barney, 1991).

Strategic Marketing Theory

Strategic Marketing Theory emphasizes the importance of creating customer value, achieving competitive advantage, and developing long-term relationships with customers. The theory suggests that organizations must continuously adapt their marketing strategies to changing market conditions, customer preferences, and

technological developments in order to remain competitive (Kotler et al., 2021). AI-based digital marketing strategies align closely with the principles of Strategic Marketing Theory because they enable organizations to better understand customer needs and deliver personalized experiences. Through predictive analytics, recommendation systems, and automated marketing tools, businesses can identify customer preferences, anticipate future behavior, and optimize marketing campaigns. These capabilities support customer-centric marketing approaches that improve customer satisfaction and loyalty. For SMEs, Strategic Marketing Theory highlights the importance of leveraging innovative technologies to create value and enhance competitiveness. AI technologies provide opportunities to improve marketing effectiveness while reducing costs, making them particularly valuable for resource-constrained organizations. Consequently, Strategic Marketing Theory serves as an appropriate framework for examining how AI-driven marketing initiatives contribute to SME growth and business success.

Conceptual Framework

The conceptual framework of this study examines the relationship between AI-Based Digital Marketing Strategies (Independent Variable) and SME Growth (Dependent Variable).

The independent variable consists of five major dimensions of AI-based digital marketing strategies:

1. Predictive Analytics
2. Chatbots
3. Marketing Automation
4. Recommendation Systems
5. Programmatic Advertising

These AI-driven strategies enable businesses to improve customer targeting, personalize marketing communications, automate repetitive processes, and optimize decision-making. The implementation of these technologies is expected to enhance marketing efficiency and overall business performance.

The dependent variable is SME Growth, which is measured through the following indicators:

1. Sales Growth

2. Customer Retention
3. Market Expansion
4. Competitive Advantage

The study assumes that effective utilization of AI-based digital marketing strategies positively influences SME growth by increasing operational efficiency, strengthening customer relationships, and improving market competitiveness. Based on TAM, RBV, and Strategic Marketing Theory, the conceptual framework proposes that AI adoption serves as a strategic resource that enables SMEs to achieve superior business outcomes and sustainable growth.

Conceptual Framework Diagram

Independent Variable (IV)

AI-Based Digital Marketing Strategies

- Predictive Analytics
- Chatbots
- Marketing Automation
- Recommendation Systems
- Programmatic Advertising

↓ Positive Impact

Dependent Variable (DV)

SME Growth

- Sales Growth
- Customer Retention
- Market Expansion
- Competitive Advantage

4. Research Methodology

This study adopts an interpretivist research philosophy because it aims to understand the strategic role of Artificial Intelligence (AI)-based digital marketing strategies and their influence on Small and Medium Enterprise (SME) growth through the interpretation of existing knowledge, organizational experiences, and business practices. Interpretivism is appropriate for this research because AI adoption involves complex social, technological, and strategic factors that cannot be fully explained through numerical analysis alone (Saunders et al., 2019). The study follows a qualitative research approach to explore how AI technologies such as predictive analytics, chatbots, marketing automation, recommendation systems, and programmatic advertising contribute to marketing effectiveness, customer engagement,

and competitive advantage. A qualitative approach enables a deeper understanding of concepts, patterns, and strategic implications by analyzing textual information from existing studies (Creswell & Creswell, 2023). The research employs a descriptive and exploratory research design. The descriptive aspect explains current AI-based digital marketing practices among SMEs, while the exploratory dimension investigates emerging opportunities, challenges, and future directions associated with AI adoption in marketing activities (Robson & McCartan, 2016). Data for this study are collected through secondary data analysis using academic databases, including Scopus, Web of Science, and Google Scholar, along with industry reports and published SME case studies. These sources provide valuable insights into AI implementation trends, digital marketing transformation, and the relationship between AI capabilities and SME performance. The collected data are analyzed using thematic analysis, which involves identifying, organizing, and interpreting recurring themes within qualitative information (Braun & Clarke, 2006). The main themes examined include AI-driven personalization, marketing automation, customer engagement improvement, data-driven decision-making, competitive advantage, and barriers to AI adoption. To ensure reliability and validity, the study uses credible peer-reviewed publications, reputable industry reports, and multiple sources of evidence to enhance research trustworthiness through data triangulation (Lincoln & Guba, 1985). The research also maintains ethical standards by accurately representing previous studies, properly acknowledging all sources according to APA 7th edition guidelines, and considering ethical issues related to AI marketing, including customer privacy, data security, transparency, and responsible use of consumer information.

AI-Based Digital Marketing Strategies in SMEs

Artificial Intelligence (AI) has become an important strategic technology for Small and Medium Enterprises (SMEs) by enabling more efficient, personalized, and data-driven digital marketing practices. Traditionally, SMEs have

faced difficulties in competing with larger organizations due to limited financial resources, smaller marketing teams, and restricted access to customer data. However, AI-based digital marketing strategies provide SMEs with opportunities to optimize marketing activities, improve customer relationships, and increase market competitiveness. AI technologies allow businesses to analyze consumer information, automate marketing processes, and deliver personalized experiences at a lower cost. The major AI-based digital marketing strategies adopted by SMEs include predictive analytics, AI chatbots, marketing automation, recommendation systems, and programmatic advertising (Davenport et al., 2020).

Predictive Analytics

Predictive analytics is one of the most valuable AI-based marketing strategies that enables SMEs to use historical and real-time data to predict future customer behaviors, preferences, and market trends. Through machine learning algorithms and advanced data analysis techniques, predictive analytics identifies patterns in customer interactions, purchasing behavior, and market conditions. This allows SMEs to make more informed marketing decisions and allocate resources more effectively (Kumar et al., 2019). One important application of predictive analytics is consumer behavior prediction. By analyzing customer demographics, browsing activities, previous purchases, and online interactions, AI systems can predict customer interests and buying intentions. SMEs can use these insights to develop targeted marketing campaigns, provide personalized offers, and improve customer engagement. For example, an online retail SME can analyze customer purchasing history to identify which products are likely to interest specific customer groups. This enables businesses to deliver relevant marketing messages rather than relying on traditional mass marketing approaches. Another important application is demand forecasting. AI-powered predictive models help SMEs estimate future demand for products and services by analyzing historical sales data, seasonal patterns, and market trends. Accurate demand

forecasting enables SMEs to manage inventory efficiently, reduce operational costs, and avoid shortages or overproduction. This capability is particularly beneficial for SMEs because limited resources require efficient planning and cost management. By improving forecasting accuracy, AI allows SMEs to respond quickly to changing customer demands and market conditions (Davenport et al., 2020).

AI Chatbots

AI chatbots represent another significant digital marketing strategy that supports SMEs in improving customer communication and service delivery. Chatbots are AI-powered software applications designed to simulate human conversations and provide automated responses to customer inquiries. These systems use natural language processing and machine learning technologies to understand customer questions and provide relevant information. One major advantage of AI chatbots is customer service automation. SMEs often face challenges in providing 24/7 customer support due to limited human resources and operational budgets. AI chatbots help overcome this limitation by providing instant responses to frequently asked questions, assisting customers with product information, processing basic requests, and guiding users throughout purchasing decisions. This improves customer satisfaction while reducing the workload of employees.

AI chatbots also contribute to lead generation by identifying potential customers and collecting valuable information during online interactions. For example, chatbots integrated into websites and social media platforms can engage visitors, recommend products, collect contact details, and encourage customers to complete purchases. By automating early stages of customer interaction, SMEs can improve conversion rates and develop stronger relationships with potential buyers. Furthermore, chatbots enable SMEs to maintain consistent communication with customers across multiple digital platforms. This improves accessibility and enhances customer experience, which is essential for building loyalty in competitive markets. According to Davenport et

al. (2020), AI-powered customer interaction tools allow businesses to deliver faster and more personalized services while improving operational efficiency.

Marketing Automation

Marketing automation involves the use of AI technologies to automate repetitive marketing activities, allowing businesses to improve efficiency and focus on strategic decision-making. For SMEs, marketing automation provides an opportunity to perform advanced marketing activities without requiring large marketing departments or significant financial investments. One major application of marketing automation is automated email campaigns. AI systems can analyze customer behavior and automatically send personalized emails based on customer interests, purchasing patterns, and engagement levels. For example, SMEs can use AI-driven email automation to send product recommendations, promotional offers, reminders, and follow-up messages. Personalized email communication increases customer engagement and improves the effectiveness of marketing campaigns.

Another important application is social media scheduling and management. AI-based marketing platforms can analyze audience behavior, identify optimal posting times, generate content recommendations, and automate social media publishing. SMEs can maintain an active online presence while reducing the time and effort required for manual social media management. AI tools can also analyze social media performance by measuring customer reactions, engagement rates, and campaign effectiveness. Marketing automation helps SMEs achieve greater marketing consistency and efficiency. By reducing repetitive tasks, businesses can allocate more resources toward creative strategies, customer relationship management, and innovation. According to Chaffey and Ellis-Chadwick (2019), automation enables organizations to improve digital marketing performance by delivering timely and relevant communications to customers.

5.4 Recommendation Systems

AI-based recommendation systems are designed to provide personalized product and service suggestions based on customer preferences, previous behavior, and purchasing patterns. These systems are widely used by digital businesses to enhance customer experiences and increase sales opportunities. For SMEs, recommendation systems provide an effective method of competing with larger companies by offering personalized services. The primary application of recommendation systems is product personalization. AI algorithms analyze customer data, including previous purchases, search history, and browsing behavior, to recommend products that match individual interests. Personalized recommendations increase the likelihood of purchase because customers receive relevant suggestions rather than general advertisements.

Another important benefit is customer experience enhancement. Customers increasingly expect businesses to understand their preferences and provide customized interactions. Recommendation systems improve customer satisfaction by reducing search effort and helping customers discover suitable products more easily. This creates a more engaging shopping experience and encourages repeat purchases. For SMEs, personalized recommendations can improve customer retention and increase revenue opportunities. By using AI to understand customer needs, SMEs can develop stronger relationships with customers and compete more effectively in digital marketplaces.

Programmatic advertising is an AI-driven advertising approach that uses automated systems to purchase, place, and optimize digital advertisements. Unlike traditional advertising methods that require manual negotiation and placement, programmatic advertising uses algorithms to analyze user data and deliver advertisements to the most relevant audiences. One major advantage of programmatic advertising is automated ad purchasing. AI platforms automatically evaluate advertising opportunities and make real-time decisions regarding ad placement and pricing. This improves efficiency and enables SMEs to maximize their advertising

budgets by targeting users who are more likely to engage with their products or services.

Another important application is targeted marketing. AI algorithms analyze consumer characteristics, online behavior, location, and interests to deliver personalized advertisements. This allows SMEs to reach specific customer segments rather than spending resources on broad advertising campaigns. Targeted marketing improves return on investment and reduces unnecessary advertising costs. Overall, AI-based digital marketing strategies provide SMEs with powerful tools to improve customer targeting, automate operations, and achieve sustainable growth. Predictive analytics, chatbots, marketing automation, recommendation systems, and programmatic advertising enable SMEs to overcome resource limitations and compete effectively in increasingly digital markets.

Impact of AI on SME Growth

Artificial Intelligence (AI) has become a transformative technology that significantly influences the growth and competitiveness of Small and Medium Enterprises (SMEs). The integration of AI into digital marketing enables SMEs to overcome traditional limitations related to financial resources, customer understanding, and operational efficiency. By utilizing AI-powered tools such as predictive analytics, chatbots, automation systems, and personalized recommendation engines, SMEs can improve decision-making, enhance customer relationships, and create new market opportunities. AI adoption contributes to SME growth by improving revenue generation, customer engagement, retention, marketing efficiency, and competitive positioning (Davenport et al., 2020). One of the most significant impacts of AI adoption on SMEs is its ability to increase revenue growth. AI-based digital marketing strategies enable SMEs to identify customer preferences, predict purchasing behavior, and deliver targeted marketing messages that improve conversion rates. Traditional marketing approaches often involve broad campaigns that may not effectively reach potential customers. In contrast, AI allows SMEs to analyze customer data and develop personalized strategies

that increase the likelihood of purchase decisions. Predictive analytics enables SMEs to identify profitable customer segments and optimize product offerings according to market demand. By analyzing historical sales data, customer interactions, and purchasing patterns, AI systems help businesses determine which products are likely to generate higher demand. This allows SMEs to make better inventory decisions, reduce unnecessary costs, and maximize sales opportunities (Kumar et al., 2019). Furthermore, AI-powered recommendation systems contribute to revenue growth by encouraging customers to purchase additional products and services. Personalized recommendations increase cross-selling and up-selling opportunities by presenting customers with relevant products based on their interests and previous behavior. For SMEs operating in digital marketplaces, these capabilities create opportunities to increase sales without significantly increasing marketing expenses.

Improved Customer Engagement

Customer engagement is a critical factor influencing SME success in competitive digital environments. AI technologies enhance customer engagement by enabling businesses to deliver personalized, timely, and interactive communication. Through AI-powered chatbots, social media analytics, and personalized marketing campaigns, SMEs can establish stronger relationships with their customers. AI chatbots allow SMEs to provide immediate customer support, answer inquiries, and guide customers throughout their purchasing journey. Unlike traditional customer service systems, AI chatbots operate continuously and provide instant responses, improving customer satisfaction and accessibility. This capability is particularly valuable for SMEs with limited human resources because it allows them to provide high-quality customer service at a lower cost.

AI also enables businesses to analyze customer sentiment and online behavior. Sentiment analysis tools help SMEs understand customer opinions, identify satisfaction issues, and adjust marketing strategies accordingly. By gaining

deeper insights into customer needs, SMEs can create more meaningful interactions and improve overall customer experiences (Davenport et al., 2020). Personalized communication further strengthens customer engagement. AI algorithms allow SMEs to deliver customized advertisements, emails, and product recommendations based on individual preferences. This personalized approach increases customer involvement and encourages stronger connections between businesses and consumers.

Customer retention is essential for sustainable SME growth because acquiring new customers is often more expensive than maintaining existing relationships. AI-based marketing strategies help SMEs improve customer retention by enabling personalized experiences, proactive customer service, and loyalty-building initiatives. AI systems analyze customer behavior to identify signs of changing preferences or potential customer dissatisfaction. Predictive analytics can identify customers who may stop purchasing products, allowing businesses to implement targeted retention strategies such as personalized discounts, loyalty programs, or customized communication. Recommendation systems also contribute to customer retention by continuously providing relevant product suggestions based on customer interests. When customers receive personalized experiences, they are more likely to remain loyal to a brand. AI-driven personalization creates a sense of value and recognition, which strengthens long-term customer relationships.

Additionally, automated customer relationship management systems enable SMEs to maintain regular communication with customers. Automated follow-up emails, personalized promotions, and customer feedback analysis help businesses maintain engagement and improve customer satisfaction.

AI significantly improves marketing efficiency by automating processes, reducing costs, and enabling data-driven decision-making. SMEs often operate with limited marketing budgets, making efficient resource allocation essential. AI technologies allow businesses to achieve better marketing outcomes without requiring large investments in human resources. Marketing

automation tools enable SMEs to automate repetitive tasks such as email marketing, social media scheduling, customer segmentation, and campaign monitoring. This reduces the time required for manual marketing activities and allows employees to focus on strategic planning and creative activities.

AI-powered analytics platforms provide real-time insights into marketing campaign performance. Businesses can evaluate customer responses, measure advertising effectiveness, and modify strategies quickly based on data-driven evidence. This improves decision-making and reduces the risks associated with ineffective marketing investments. Programmatic advertising also enhances marketing efficiency by automatically selecting appropriate audiences and optimizing advertisement placement. Instead of spending resources on broad advertising campaigns, SMEs can target specific customer groups who are more likely to purchase their products. This increases return on investment and improves overall marketing effectiveness (Chaffey & Ellis-Chadwick, 2019).

AI adoption provides SMEs with opportunities to develop competitive advantages in increasingly digital markets. According to the Resource-Based View theory, organizations achieve sustainable competitive advantage by developing valuable and unique capabilities (Barney, 1991). AI-based marketing capabilities represent strategic resources that enable SMEs to differentiate themselves from competitors. Large corporations traditionally possess advantages due to greater financial resources, advanced technologies, and extensive customer data. However, AI allows SMEs to access similar capabilities through affordable cloud-based platforms and digital marketing tools. By implementing AI solutions, SMEs can compete more effectively by improving customer understanding, increasing operational efficiency, and delivering superior experiences. AI also supports innovation by allowing SMEs to adapt quickly to changing consumer preferences and market conditions. Businesses that effectively utilize AI can identify emerging trends, respond faster to customer needs, and develop more effective marketing strategies. This flexibility

enhances their ability to survive and grow in competitive environments.

AI-based digital marketing strategies create new opportunities for SMEs to expand their markets beyond traditional geographical limitations. Digital platforms combined with AI technologies allow SMEs to reach international customers, identify new market segments, and develop targeted expansion strategies. AI-powered market analysis tools help SMEs understand customer demographics, regional preferences, and emerging market opportunities. These insights allow businesses to customize their products and marketing messages for different customer groups. Social media advertising and programmatic marketing enable SMEs to reach specific audiences across different locations. Through AI-based targeting, businesses can promote products to potential customers who demonstrate interest in their offerings. This reduces the cost of market expansion and allows SMEs to compete in broader markets.

Furthermore, AI translation tools, automated customer support systems, and personalized digital experiences make it easier for SMEs to serve international customers. Therefore, AI contributes to global market accessibility and business growth opportunities.

Evidence from various SME applications demonstrates the positive influence of AI-based digital marketing strategies on business performance. Many small online retailers have adopted AI recommendation systems to personalize customer experiences and increase sales. By analyzing customer browsing patterns and purchase histories, these businesses have improved product recommendations and increased customer conversion rates. Similarly, SMEs in service industries have implemented AI chatbots to automate customer communication and improve response times. These systems allow small businesses to provide continuous customer support without requiring significant increases in staffing costs.

Small businesses using AI-powered marketing automation platforms have also reported improvements in campaign effectiveness. Automated email marketing, customer

segmentation, and social media management enable SMEs to maintain consistent communication with customers while reducing operational workloads. However, successful AI adoption depends on factors such as technological readiness, employee skills, financial resources, and strategic planning. SMEs that integrate AI as part of a broader digital transformation strategy are more likely to achieve sustainable growth compared with businesses that adopt isolated technologies without clear objectives.

Overall, AI has a significant positive impact on SME growth by improving revenue generation, customer engagement, retention, marketing efficiency, competitive advantage, and market expansion. As AI technologies become increasingly accessible, SMEs have greater opportunities to leverage digital innovation and compete successfully in modern business environments.

Challenges and Limitations of AI Adoption in SMEs

Although Artificial Intelligence (AI)-based digital marketing provides significant opportunities for Small and Medium Enterprises (SMEs), its adoption is accompanied by several challenges and limitations. SMEs often operate with limited financial resources, technological capabilities, and human expertise, which can create barriers to successful AI implementation. Unlike large organizations that possess substantial budgets and specialized teams, SMEs may struggle to invest in advanced AI technologies and integrate them effectively into existing business processes. Understanding these challenges is essential for developing strategies that enable SMEs to achieve sustainable benefits from AI adoption.

Financial limitations represent one of the most significant barriers to AI adoption among SMEs. Implementing AI-based digital marketing solutions often requires investment in software, cloud infrastructure, data management systems, and employee training. Although many AI tools have become more affordable through cloud-based platforms, the initial costs associated with implementation may still be challenging for small businesses with limited budgets. Many SMEs

prioritize immediate operational needs rather than long-term technology investments, making it difficult for them to allocate resources toward AI adoption. Additionally, uncertainty regarding the return on investment (ROI) of AI technologies can discourage SME owners from investing in advanced marketing solutions. Without clear evidence of financial benefits, some businesses may perceive AI adoption as a risky investment.

However, affordable AI solutions and subscription-based digital marketing platforms are gradually reducing financial barriers. Governments, technology providers, and business support organizations can also contribute by providing training programs, incentives, and financial assistance to encourage AI adoption among SMEs (OECD, 2021).

Another major challenge faced by SMEs is the shortage of technical knowledge and skilled personnel required to implement and manage AI technologies. AI-based marketing systems require understanding of data analytics, machine learning concepts, digital platforms, and technology management. Many SME owners and employees may lack the necessary skills to effectively utilize AI tools. Limited technical expertise can result in ineffective implementation, poor data management, and underutilization of available AI capabilities. Even when SMEs adopt AI solutions, they may not achieve expected benefits if employees do not understand how to interpret AI-generated insights or integrate them into marketing decisions. To overcome this challenge, SMEs need to invest in employee training and digital skill development. Collaboration with technology providers, consultants, and educational institutions can also help SMEs develop the necessary capabilities to successfully implement AI-driven marketing strategies.

AI-based marketing strategies rely heavily on collecting and analyzing large amounts of customer data. While this data enables personalized marketing and improved customer understanding, it also creates significant privacy and security concerns. SMEs must ensure that customer information is collected, stored, and processed responsibly. Data breaches, unauthorized access, and misuse of customer

information can damage customer trust and negatively affect business reputation. Furthermore, SMEs must comply with data protection regulations and ensure transparency regarding how customer data is used. Failure to maintain proper data governance practices may result in legal consequences and loss of customer confidence. AI systems also create challenges related to data accuracy and quality. Poor-quality or incomplete data can lead to inaccurate predictions and ineffective marketing decisions. Therefore, SMEs must establish appropriate data management practices and cybersecurity measures to maximize AI benefits while protecting customer information (Davenport et al., 2020).

The use of AI in digital marketing raises several ethical concerns related to transparency, fairness, and responsible decision-making. AI algorithms analyze customer data to predict behavior and personalize marketing messages; however, these algorithms may sometimes produce biased outcomes if they are trained on incomplete or inaccurate data. One ethical concern is algorithmic bias, where AI systems may unintentionally favor certain customer groups while excluding others. This can create unfair marketing practices and negatively influence customer experiences. Another concern is the lack of transparency in AI decision-making processes, as customers may not understand why they receive certain advertisements or recommendations. SMEs must ensure that AI technologies are used responsibly by implementing ethical guidelines, monitoring algorithm performance, and maintaining transparency with customers. Responsible AI practices can help businesses build trust and strengthen long-term customer relationships.

Organizational resistance is another important challenge affecting AI adoption among SMEs. Employees and business owners may hesitate to adopt AI technologies due to fear of job displacement, uncertainty about new systems, or lack of confidence in technology. Resistance to change can slow down digital transformation efforts and reduce the effectiveness of AI implementation. Many SMEs have traditionally relied on personal experience and conventional

marketing approaches. Transitioning toward data-driven decision-making may require significant changes in organizational culture and management practices. Without proper communication and employee involvement, AI adoption initiatives may face internal opposition. Successful AI implementation requires strong leadership support, employee training, and a clear understanding of how AI can support rather than replace human capabilities. Organizations should focus on developing collaboration between employees and AI systems to improve productivity and innovation.

Integrating AI technologies with existing business systems represents another significant challenge for SMEs. Many small businesses operate with outdated software systems that may not be compatible with advanced AI solutions. Technical difficulties, data integration problems, and system complexity can prevent successful AI implementation. Additionally, SMEs may struggle to select appropriate AI tools due to the wide range of available technologies. Choosing solutions that do not align with business objectives can result in wasted resources and limited benefits. Effective AI integration requires careful planning, evaluation of organizational needs, and alignment between technology investments and business strategies.

Despite these challenges, SMEs can overcome AI adoption barriers through gradual implementation, employee training, strategic partnerships, and careful technology selection. By addressing financial, technical, ethical, and organizational limitations, SMEs can successfully utilize AI-based digital marketing strategies to improve efficiency, customer relationships, and long-term competitiveness.

Discussion

The findings of this study demonstrate that Artificial Intelligence (AI)-based digital marketing strategies have a significant influence on the growth and competitiveness of Small and Medium Enterprises (SMEs). The analysis indicates that AI technologies provide SMEs with valuable opportunities to improve marketing effectiveness, enhance customer relationships, increase operational efficiency, and expand market opportunities. However, the successful

implementation of AI depends on several organizational factors, including financial capability, technological readiness, employee skills, and ethical management of customer data. This discussion interprets the findings in relation to existing literature and highlights the strategic implications of AI adoption for SMEs.

Interpretation of Findings

The findings reveal that AI-based digital marketing strategies positively contribute to SME growth through improved decision-making, personalization, automation, and customer engagement. Predictive analytics enables SMEs to analyze customer behavior, forecast market trends, and make informed marketing decisions. By understanding customer preferences and purchasing patterns, SMEs can develop more targeted campaigns and allocate marketing resources more effectively. The findings also show that AI-powered chatbots and automation tools improve customer service efficiency. SMEs can provide faster responses, maintain continuous communication, and manage customer interactions without significantly increasing operational costs. This is particularly important for SMEs because limited human resources often restrict their ability to provide comprehensive customer support. AI technologies help overcome this limitation by enabling businesses to deliver consistent and personalized customer experiences. Furthermore, the study indicates that recommendation systems and personalized marketing strategies strengthen customer relationships and improve retention. Modern consumers increasingly expect businesses to provide relevant and customized experiences. AI enables SMEs to analyze individual customer preferences and deliver suitable product recommendations, thereby increasing satisfaction and encouraging repeat purchases. The findings also highlight that AI adoption enhances marketing efficiency by reducing repetitive tasks and improving resource allocation. Through marketing automation and programmatic advertising, SMEs can optimize advertising campaigns, reach targeted audiences, and improve return on investment. These capabilities allow

SMEs to compete more effectively with larger organizations that traditionally possess greater marketing resources.

However, the findings also identify several challenges associated with AI adoption. Financial constraints, lack of technical expertise, privacy concerns, and resistance to technological change remain significant barriers. Therefore, while AI provides substantial benefits, SMEs require appropriate strategies and organizational preparation to maximize its value.

Comparison with Existing Literature

The findings of this study are consistent with previous research emphasizing the transformative role of AI in marketing and business performance. Davenport et al. (2020) argue that AI is reshaping marketing by enabling organizations to analyze large amounts of customer data, improve personalization, and enhance decision-making processes. The current findings support this argument by demonstrating that AI-based marketing tools provide SMEs with capabilities that improve customer engagement and business growth. Similarly, Kumar et al. (2019) highlight that emerging technologies influence marketing effectiveness by enabling organizations to understand customer behavior and create personalized experiences. The findings of this study confirm that AI-driven personalization and predictive analytics are particularly valuable for SMEs because they allow smaller businesses to compete through improved customer understanding rather than relying solely on financial resources.

The findings also align with the Technology Acceptance Model (TAM) proposed by Davis (1989), which suggests that technology adoption depends on perceived usefulness and ease of use. SMEs are more likely to adopt AI solutions when they recognize clear benefits such as improved efficiency, increased sales, and enhanced customer relationships. However, technological complexity and lack of skills may reduce adoption willingness among businesses with limited capabilities. Additionally, the findings support the Resource-Based View (RBV) proposed by Barney (1991), which emphasizes that organizations achieve

competitive advantage through valuable and unique resources. AI-based marketing capabilities represent strategic resources that enable SMEs to differentiate themselves, improve market positioning, and develop sustainable competitive advantages. Despite these similarities with previous studies, this research extends existing literature by focusing specifically on SMEs rather than large corporations. Much previous research has examined AI adoption among multinational companies, while limited attention has been given to how SMEs can strategically use AI-based marketing tools despite resource limitations.

Strategic Implications for SMEs

The findings provide several important strategic implications for SME managers and business owners. First, SMEs should view AI adoption not simply as a technological investment but as a strategic capability that can enhance long-term competitiveness. Businesses should identify specific marketing challenges and select AI solutions that align with their objectives rather than adopting technology without clear strategic direction.

Second, SMEs should prioritize employee training and digital skill development. Although AI tools can automate many marketing activities, human expertise remains essential for interpreting AI insights, making strategic decisions, and managing customer relationships. Developing employee capabilities will enable SMEs to maximize the benefits of AI implementation.

Third, SMEs should gradually integrate AI technologies based on their available resources and business needs. Instead of implementing complex AI systems immediately, small businesses can begin with affordable solutions such as automated marketing platforms, AI chatbots, or analytics tools. This gradual approach reduces financial risks and allows organizations to evaluate the effectiveness of AI applications.

Furthermore, SMEs must establish strong data management and ethical practices. Since AI-based marketing depends on customer information, businesses must ensure transparency, privacy protection, and responsible use of data.

Maintaining customer trust is essential for long-term success in digital markets.

Finally, policymakers and business support organizations should support SME digital transformation by providing training programs, financial incentives, and access to AI technologies. Such initiatives can reduce barriers and encourage wider AI adoption among SMEs.

Contribution to Knowledge

This study contributes to existing academic knowledge by providing a strategic analysis of how AI-based digital marketing strategies influence SME growth. While previous studies have explored AI applications in marketing, this research specifically examines the relationship between AI capabilities and SME performance outcomes, including revenue growth, customer retention, market expansion, and competitive advantage. The study also contributes by integrating multiple theoretical perspectives, including the Technology Acceptance Model, Resource-Based View, and Strategic Marketing Theory, to explain AI adoption and its business implications. This integrated approach provides a broader understanding of how technological, organizational, and strategic factors influence AI-driven growth.

Furthermore, this research highlights the importance of considering both opportunities and challenges associated with AI adoption. While AI provides significant advantages, SMEs must address financial, technical, ethical, and organizational barriers to achieve successful implementation. Overall, the findings suggest that AI-based digital marketing represents an important strategic opportunity for SMEs seeking sustainable growth in increasingly competitive digital environments. By effectively adopting AI technologies and developing appropriate organizational capabilities, SMEs can enhance marketing performance, strengthen customer relationships, and achieve long-term competitive advantage.

Conclusion

The rapid advancement of Artificial Intelligence (AI) has significantly transformed digital

marketing practices and created new opportunities for Small and Medium Enterprises (SMEs) to improve growth, competitiveness, and sustainability. This study examined the impact of AI-based digital marketing strategies on SME development by analyzing the role of predictive analytics, AI chatbots, marketing automation, recommendation systems, and programmatic advertising. The findings indicate that AI has become a strategic tool that enables SMEs to overcome traditional marketing limitations, improve customer understanding, and achieve better business outcomes. AI-based digital marketing strategies provide SMEs with the ability to make data-driven decisions, personalize customer experiences, and optimize marketing activities. Predictive analytics helps businesses forecast customer behavior and market demand, while chatbots improve customer service efficiency through automated communication. Marketing automation reduces operational workload by managing repetitive marketing activities, and recommendation systems enhance customer satisfaction through personalized product suggestions. Similarly, programmatic advertising enables SMEs to reach targeted audiences more effectively while improving advertising efficiency. The study demonstrates that AI contributes positively to SME growth through increased revenue generation, improved customer engagement, enhanced customer retention, greater marketing efficiency, competitive advantage, and market expansion opportunities. By adopting AI technologies, SMEs can compete more effectively with larger organizations that traditionally possess greater financial and technological resources. AI allows smaller businesses to achieve improved market positioning by focusing on innovation, customer value creation, and operational efficiency. However, the research also highlights several challenges associated with AI adoption among SMEs. Financial limitations, lack of technical expertise, data privacy concerns, ethical issues, resistance to technological change, and integration difficulties remain important barriers. Therefore, successful AI implementation requires not only access to technology but also strategic planning,

employee development, effective data management, and organizational readiness. Overall, AI-based digital marketing represents an important opportunity for SMEs seeking sustainable growth in the digital economy. SMEs that strategically adopt AI technologies and develop the necessary capabilities can improve their marketing performance, strengthen customer relationships, and establish long-term competitive advantages.

Key Findings

The major findings of this study can be summarized as follows:

First, AI-based digital marketing strategies significantly improve SME marketing effectiveness by enabling businesses to analyze customer data, predict market trends, and develop personalized marketing campaigns. Data-driven decision-making allows SMEs to allocate resources more efficiently and improve business performance.

Second, AI technologies enhance customer engagement and retention by providing personalized communication and improved service experiences. AI chatbots, recommendation systems, and automated marketing platforms enable SMEs to interact with customers more effectively and develop stronger relationships.

Third, AI adoption contributes to revenue growth and competitive advantage by improving operational efficiency and enabling SMEs to respond quickly to changing customer demands. Businesses that effectively utilize AI capabilities can differentiate themselves from competitors and expand into new markets.

Fourth, successful AI adoption depends on organizational capabilities, including financial resources, employee skills, technological infrastructure, and effective management support. SMEs must overcome implementation barriers to maximize the benefits of AI-based marketing strategies.

Finally, ethical considerations such as customer privacy, transparency, and responsible data usage are essential for sustainable AI adoption. Businesses must ensure that AI technologies are implemented in a way that maintains customer trust and complies with relevant regulations.

Recommendations

Based on the findings of this study, several practical recommendations are proposed for SMEs.

Adoption of Affordable AI Tools

SMEs should prioritize the adoption of affordable and scalable AI solutions that align with their business needs and available resources. Instead of investing in complex and expensive systems, SMEs can begin with accessible AI applications such as customer relationship management platforms, automated email marketing tools, chatbots, and analytics software. Cloud-based AI services provide cost-effective options that allow SMEs to benefit from advanced technologies without significant infrastructure investments.

Employee Digital Training

SMEs should invest in employee training and digital skill development to ensure effective AI implementation. Although AI can automate many marketing activities, human knowledge remains essential for interpreting AI insights and making strategic decisions. Training programs should focus on digital marketing skills, data analysis, AI tool management, and ethical technology use. Developing employee capabilities will increase confidence and reduce resistance toward AI adoption.

Data Governance Policies

SMEs should establish strong data governance policies to ensure responsible and secure use of customer information. Since AI-based marketing depends on collecting and analyzing customer data, businesses must implement appropriate security measures, privacy policies, and transparency practices. Effective data governance helps reduce cybersecurity risks, improves customer trust, and ensures compliance with data protection regulations.

Strategic AI Implementation Roadmap

SMEs should develop a clear AI implementation roadmap that connects technology adoption with long-term business objectives. The roadmap should include identifying marketing challenges,

selecting appropriate AI tools, evaluating costs and benefits, training employees, and monitoring performance outcomes. A gradual implementation approach allows SMEs to minimize risks and maximize the value of AI investments.

Future Research Directions

Future research should further investigate the relationship between AI adoption and SME performance using primary data collection methods such as surveys and interviews with SME owners and managers. Quantitative studies could measure the statistical relationship between specific AI technologies and business growth indicators, including sales performance, customer satisfaction, and profitability. Future studies could also examine differences in AI adoption across industries, regions, and developing versus developed economies. Since SMEs operate under different technological and economic conditions, comparative research could provide deeper insights into factors influencing successful AI implementation. Additionally, future research should explore the long-term ethical and social implications of AI-based marketing, including algorithmic bias, consumer privacy, and transparency. Understanding these issues will help businesses develop responsible AI strategies that balance innovation with customer trust. Finally, future studies may investigate the role of emerging AI technologies, including generative AI, advanced machine learning systems, and AI-driven content creation tools, in shaping the future of SME digital marketing.

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