Understanding AI Implementation in Digital Advertising Among Retail SMEs in Malaysia

Fauzi Nor, Alisa Ibrahim and Nor Irvoni Mohd Ishar

Arshad Ayub Graduate Business School, Universiti Teknologi Mara (UiTM), 40450 Shah Alam, Malaysia

ABSTRACT

The emergence of Artificial Intelligence (AI) technology has significantly impacted multiple industries, including retail, where digital advertising plays a crucial role in corporate strategies. Despite the growing attention and financial commitment towards AI, there is a notable deficiency in existing research on the strategic planning and future adoption of AI-powered digital advertising in medium-sized retail Small and Medium-sized Enterprises (SMEs) in Malaysia. This paper proposes a conceptual framework to investigate the methods by which these organizations aim to incorporate AI into their digital advertising campaigns. It examines perceived advantages and identifies potential obstacles related to this integration. The framework is based on a thorough examination of existing literature and empirical research. Anticipated results will clarify the perceived benefits, such as greater client targeting, enhanced personalization, and increased operational efficiency. However, obstacles such as exorbitant expenses, intricate technology, and reluctance to adopt new methods may impede effective AI integration. Understanding these dynamics will provide useful insights for SMEs during the initial planning phase of integrating AI, assisting them in navigating complexities and promoting innovation to maintain competitiveness.

Keywords*: Artificial Intelligence, Digital Advertising, Retail SMEs, Malaysia, AI Implementation.*

INTRODUCTION

Background of Study

The advent of Artificial Intelligence (AI) has catalyzed transformative changes across multiple industries, with digital advertising emerging as a critical component of global marketing strategies. AI technologies, such as machine learning, natural language processing, and predictive analytics, enhance personalization, targeting, and customer engagement, offering businesses a competitive edge [26],[16]. For retail SMEs in Malaysia, these technologies present significant opportunities to refine client targeting, improve engagement, and optimize advertising expenditure [19]. By analyzing vast datasets, AI enables businesses to uncover patterns and deliver relevant, personalized advertisements to their audiences [40].

However, while large corporations have embraced AI to enhance their marketing strategies, SMEs face significant barriers that limit their adoption. High costs, limited expertise, and concerns over data privacy hinder many small businesses from leveraging these technologies effectively [11]. A 2020 report by the Malaysian Digital Economy Corporation (MDEC) revealed that over 60% of SMEs lack knowledge about AI's potential benefits, with many citing a lack of expertise as a substantial obstacle [17]. The challenge of balancing customer data protection with the need for extensive data analysis further complicates the adoption process [50]. Consequently, SMEs in developing nations like Malaysia often lag in adopting AI, limiting their ability to compete in the increasingly digital economy [24].

The discrepancy in AI adoption between large corporations and SMEs underscores the need to address these challenges. Despite the critical role SMEs play in Malaysia's economy—contributing significantly to employment and GDP—there is limited research on how these businesses can successfully integrate AI into their

operations [60]. Existing studies predominantly focus on large corporations or the technical aspects of AI, neglecting the distinct needs and constraints of SMEs [59]. This lack of guidance deprives SMEs of strategies to overcome financial limitations, operational difficulties, and other barriers to AI adoption [45].

To bridge this gap, this study aims to investigate the integration of AI technologies into the digital advertising strategies of Malaysia's retail SMEs. It seeks to elucidate the benefits of AI adoption and identify the obstacles SMEs face during implementation [54]. By addressing these issues, the study will provide practical recommendations to help SMEs enhance their competitiveness and harness AI's transformative potential in digital advertising [33].

Problem Statement

The incorporation of AI into digital advertising has revolutionized marketing, enabling organizations to enhance customization, refine targeting, and boost client engagement. However, small and medium-sized retail businesses (SMEs) in Malaysia face significant barriers to AI adoption, limiting their ability to compete and grow in the digital marketplace. High implementation costs, such as investments in infrastructure, software, and skilled personnel, present a formidable obstacle for resource-constrained SMEs [27]. Additionally, the rapid pace of technological advancements places further financial strain on these businesses, leading to slower adoption rates compared to larger organizations [54].

Compounding these financial challenges is a notable lack of understanding among SMEs regarding the practical implementation of AI in digital advertising [60]. Many SMEs are unaware of the full capabilities of AI, resulting in inefficient utilization and suboptimal returns on investment [33]. The absence of specialized training programs exacerbates this issue, leaving staff ill-equipped to manage AI-driven marketing initiatives effectively [11],[19]. Without adequate knowledge and training, SMEs risk misaligning AI technologies with their business objectives, undermining the benefits of enhanced customer engagement and targeting [17].

Data privacy and security concerns further complicate AI adoption for SMEs. The need to manage large volumes of customer data raises significant privacy issues, particularly for SMEs lacking robust data protection frameworks [33]. In Malaysia, stringent data protection laws and the potential for penalties intensify these concerns, discouraging SMEs from fully embracing AI technologies [27]. These challenges collectively contribute to the low adoption rate of AI-powered digital advertising among Malaysian SMEs. Reports indicate that over 60% of SMEs lack awareness of AI's potential benefits, leaving them ill-prepared to develop effective strategies for its integration [60].

In light of these challenges, this study seeks to investigate the integration of AI into digital advertising by Malaysian retail SMEs. It explores the perceived benefits of AI adoption, such as improved targeting and campaign optimization, alongside the challenges, including financial constraints, expertise gaps, and privacy concerns. By addressing these issues, the study aims to provide practical insights that empower SMEs to leverage AI technologies effectively, thereby fostering growth and innovation in the sector. The findings will contribute to the existing literature by offering a comprehensive understanding of AI utilization in digital advertising among SMEs, ultimately supporting the development of strategies to enhance their competitiveness in the digital economy.

LITERATURE REVIEW

This section examines the integration of AI technologies into digital advertising and its implications for SMEs. It explores the benefits of AI in marketing, the challenges SMEs face in implementation, and the strategies required to bridge these gaps. The discussion culminates in a conceptual framework that underscores the transformative potential of AI for SMEs.

AI in Digital Advertising

AI technologies have fundamentally reshaped digital advertising, enabling unprecedented levels of personalization, targeting, and engagement. Machine learning, natural language processing (NLP), and

predictive analytics form the backbone of AI-driven campaigns, delivering quantifiable results that surpass traditional marketing methods [13]. Advanced algorithms analyze vast datasets to identify consumer patterns, thereby facilitating tailored advertising strategies that resonate with specific audience segments [10].

However, these advancements come with ethical considerations. Concerns about data privacy and algorithmic bias have prompted debates about the trade-offs between technological efficiency and consumer autonomy [43]. For instance, while machine learning optimizes real-time ad placements, it raises questions about the potential loss of individuality in marketing communications [62]. Similarly, NLP enhances content relevance but may lack the emotional nuance required for genuine audience connection [36]. Predictive analytics, while offering actionable insights, risks perpetuating existing biases in datasets, potentially excluding minority groups from campaigns [44].

To fully harness AI's potential, businesses must balance technological innovation with ethical responsibility. Continuous dialogue between marketers and technologists is crucial to ensure that AI tools serve societal interests while preserving creativity and human engagement [56].

AI Implementation in SMEs

The adoption of AI by SMEs in Malaysia is shaped by their technological readiness, financial resources, and perceived ease of use. Technological readiness, encompassing infrastructure, digital literacy, and technical expertise, remains a significant barrier. Many SMEs lack the foundational systems required to integrate AI seamlessly into their operations [1].

Financial constraints further hinder adoption. The substantial upfront costs of AI tools, coupled with ongoing maintenance expenses, are particularly burdensome for SMEs operating on narrow profit margins in competitive markets [46]. Simplifying AI integration through user-friendly solutions could alleviate these challenges, as SMEs are more likely to adopt technologies that require minimal technical knowledge and training [32].

Customizing support mechanisms to address these barriers is critical. This includes financial subsidies, targeted training programs, and the development of scalable infrastructure tailored to the unique needs of SMEs. Such measures would enable these businesses to leverage AI for enhanced digital advertising and gain a competitive edge in both domestic and global markets [61].

Benefits of AI in Digital Advertising

The benefits of AI in digital advertising are multifaceted. Enhanced targeting precision allows businesses to engage specific consumer segments with personalized content, significantly improving engagement rates [52]. AI also fosters deeper customer relationships by delivering interactive experiences that strengthen brand loyalty [42].

Additionally, real-time optimization of advertising strategies through machine learning and predictive analytics ensures efficient resource allocation, maximizing return on investment (ROI) [39]. For SMEs, these capabilities democratize access to advanced marketing strategies, allowing smaller firms to compete effectively with larger corporations [31].

By addressing challenges such as financial constraints and technical expertise, SMEs can unlock the full potential of AI, achieving sustainable growth and innovation in the digital economy.

Challenges of AI Implementation

Despite its transformative potential, AI adoption by SMEs is fraught with challenges. High implementation costs, encompassing infrastructure, software, and skilled personnel, remain a primary obstacle [22]. SMEs often struggle to justify these investments without immediate ROI, limiting their ability to scale AI initiatives.

A lack of specialized expertise further complicates AI adoption. The technical complexity of AI systems demands a workforce proficient in data science and machine learning, which many SMEs lack [57]. This skills

gap not only hinders AI implementation but also restricts its effective utilization, diminishing potential benefits [32].

Data privacy and regulatory compliance present additional hurdles. AI's reliance on large datasets amplifies concerns about consumer privacy and legal adherence. Malaysian SMEs must navigate stringent regulations, such as the Personal Data Protection Act (PDPA), while implementing robust data governance frameworks [53]. For resource-constrained SMEs, these requirements can be particularly daunting.

Addressing these challenges requires a holistic approach, including financial support mechanisms, workforce development programs, and scalable data governance structures. Overcoming these barriers would empower SMEs to leverage AI technologies effectively, driving innovation and competitiveness in the evolving digital marketplace [37].

Conceptual Framework

Building on the challenges and opportunities identified in the preceding sections, this study adopts Rogers' Diffusion of Innovations (DOI) Theory to examine the integration of AI technologies into digital advertising for retail SMEs in Malaysia. The DOI framework provides a structured lens to explore the adoption process by identifying key factors that influence the acceptance and application of innovations [47]. This framework aims to clarify the relationship between AI adoption and its impact on digital advertising outcomes, offering actionable insights for SMEs.

The perceived relative advantage of AI over traditional advertising methods is a critical determinant of adoption. SMEs are more likely to integrate AI if they recognize tangible benefits, such as improved targeting accuracy, enhanced customer engagement, and optimized advertising expenditure [32]. For example, AI-powered tools that enable SMEs to compete with larger corporations in terms of personalization and campaign efficiency may act as strong motivators for adoption. Highlighting these advantages can increase SME willingness to invest in AI technologies, despite resource constraints.

Compatibility refers to the alignment of AI technologies with an organization's existing values, experiences, and operational needs. For Malaysian SMEs, seamless integration of AI into current digital advertising practices is essential to reduce resistance to change. Ensuring that AI tools are adaptable to existing systems and align with strategic goals can facilitate smoother adoption [42]. For instance, AI solutions that complement rather than replace traditional marketing methods may be more readily embraced.

The perceived complexity of AI systems significantly impacts adoption, particularly for SMEs with limited technical expertise. Complex systems may deter SMEs due to the steep learning curve and resource demands [53]. Simplifying user interfaces and providing accessible training programs are crucial strategies to lower these barriers. For example, AI platforms designed with intuitive dashboards and minimal setup requirements can enhance adoption rates among SMEs.

Trialability, or the ability to test AI technologies on a limited scale, plays a pivotal role in building SME confidence. Pilot programs or demonstrations allow SMEs to evaluate AI's effectiveness before committing to full-scale implementation [37]. Such initiatives can help mitigate perceived risks and foster trust in the technology's capabilities. For example, offering SMEs affordable trial periods for AI tools can encourage experimentation and eventual adoption.

The degree to which the benefits of AI implementation are visible to stakeholders can influence its adoption. SMEs that can demonstrate measurable improvements in marketing efficiency and customer engagement are more likely to gain internal and external support for AI integration [57]. Publicizing case studies or success stories from similar businesses can further enhance the observability of AI's advantages, creating a ripple effect among SMEs.

While the DOI framework highlights factors that encourage adoption, it also underscores the need to address significant barriers. Financial constraints remain a primary obstacle, necessitating cost-effective AI solutions

and potential subsidies for SMEs. Lack of technical expertise calls for targeted training programs to equip SME employees with the skills needed to manage AI technologies [22]. Additionally, robust data governance frameworks are essential to address privacy concerns and build consumer trust [53].

By leveraging the DOI framework, this study offers a comprehensive understanding of the factors influencing AI adoption in digital advertising among Malaysian SMEs. The framework not only identifies drivers of adoption, such as relative advantage and trialability, but also addresses critical challenges, providing a balanced perspective on the integration process. These insights contribute to the development of strategies that empower SMEs to harness AI technologies effectively, enhancing their competitiveness and innovation in the digital economy.
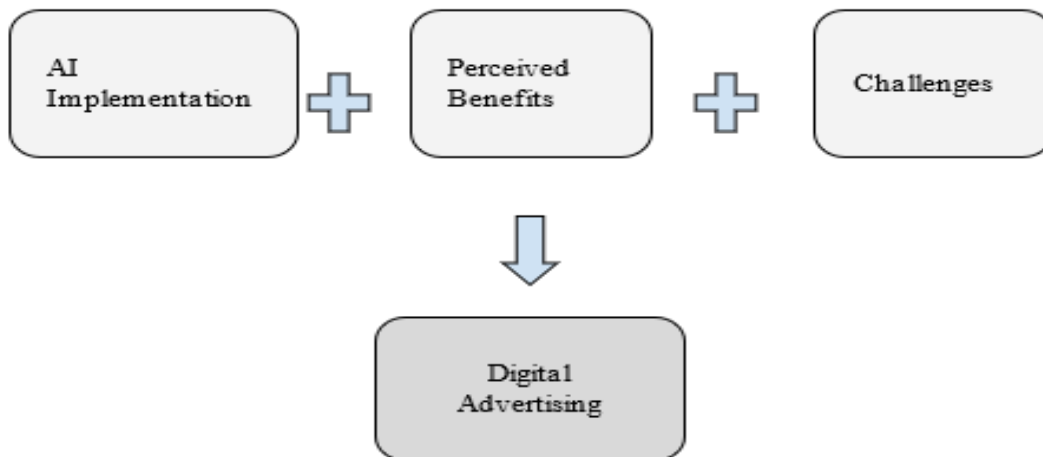

Figure 1. Conceptual Framework Proposed in this Study.

CONCLUSION AND RECOMMENDATION

The integration of AI into digital advertising offers transformative opportunities for SMEs, particularly in Malaysia's retail sector. AI has the potential to revolutionize marketing strategies by enabling enhanced targeting accuracy, personalized customer experiences, and optimized resource allocation. However, despite its immense benefits, the adoption of AI by SMEs is fraught with significant challenges. High implementation costs, lack of technical expertise, and concerns over data privacy and security remain primary barriers that hinder SMEs from fully capitalizing on the advantages of AI technologies. These obstacles not only restrict SMEs' competitiveness but also limit their ability to contribute to the broader digital transformation goals of the Malaysian economy.

This paper has underscored the dual nature of AI adoption, highlighting both its potential benefits and the critical challenges SMEs must address. By leveraging Rogers' Diffusion of Innovations (DOI) Theory, a conceptual framework was proposed to analyze the determinants of AI adoption in digital advertising. The framework identifies five key factors—relative advantage, compatibility, complexity, trialability, and observability—as critical to influencing the successful integration of AI technologies. Addressing these factors holistically provides SMEs with a roadmap for navigating the complexities of AI adoption while maximizing its benefits.

To overcome these challenges and enable SMEs to thrive in an increasingly competitive digital marketplace, strategic interventions are essential. First, addressing the lack of technical expertise is critical. Focused training programs tailored to SME employees can equip them with the necessary skills to implement and manage AI tools effectively. Such programs should emphasize hands-on learning, fostering a deeper understanding of AI applications in digital advertising. Second, financial barriers must be alleviated through targeted support mechanisms. Government-led initiatives, such as subsidies, grants, and low-interest loans, can reduce the financial burden of adopting AI technologies. Partnerships between public and private sectors can also facilitate cost-sharing opportunities, making AI more accessible to resource-constrained SMEs.

Additionally, strengthening data governance frameworks is imperative to address privacy and security concerns. SMEs must implement robust systems that comply with Malaysia's Personal Data Protection Act (PDPA) and

align with global data protection standards. This not only ensures legal compliance but also builds consumer trust, which is critical for sustainable growth in digital advertising. Furthermore, promoting trialability and observability can significantly enhance AI adoption. SMEs should be encouraged to participate in pilot programs and test AI technologies on a smaller scale. Demonstrating measurable outcomes through case studies and success stories can further increase confidence among SME stakeholders, showcasing the tangible benefits of AI implementation.

By adopting these strategies, SMEs can overcome the barriers to AI adoption and unlock its transformative potential. Successful integration of AI will not only enhance marketing effectiveness but also foster long-term competitiveness, allowing SMEs to thrive in a rapidly evolving digital economy. This study provides valuable insights into the factors influencing AI adoption and offers practical recommendations to address key challenges. Moreover, the findings contribute to Malaysia's broader digital transformation objectives, aligning with the nation's vision of fostering innovation-driven economic growth.

Looking ahead, future research should aim to empirically validate the proposed framework by conducting case studies or surveys with Malaysian retail SMEs. Cross-industry comparisons or sector-specific analyses could provide deeper insights into the unique challenges and opportunities associated with AI adoption. Such research would further enrich the understanding of AI's role in transforming SMEs and contribute to the development of more targeted and effective strategies.

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