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## DIGITAL MARKETING AND CUSTOMER SATISFACTION IN SMES: EXPLORING THE MEDIATING ROLE OF CUSTOMER ENGAGEMENT

Dileep Kumar <sup>a,\*</sup>, Maria Shaikh <sup>b</sup>, Naeem Gul Gilal <sup>c</sup>

<sup>a</sup> Government Model Arts & Commerce College Mirpurkhas, Sindh, Pakistan

<sup>b</sup> Institute of Business Administration (IBA) , University of Sindh, Jamshoro, Pakistan

<sup>c</sup> Department of Business Administration, University of Mirpurkhas, Sindh, Pakistan

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### ABSTRACT

SMEs face challenges in leveraging digital marketing to improve customer satisfaction and business performance, particularly in emerging economies like Pakistan. The swift progress of digital marketing has significantly reshaped how small and medium enterprises (SMEs) engage with their customers, offering cost-effective and scalable tools that enhance customer satisfaction and loyalty. On the basis of Grounded in Social Cognitive Theory, the study seeks to evaluate the direct impact of digital marketing on customer satisfaction, examine the influence of customer engagement on this relationship, and provide actionable insights for SMEs seeking a competitive advantage through digital platforms. Using purposive sampling, data were collected from 300 digitally active customers of Bake Parlor Foods, a well-known SME in Sindh, Pakistan. Analysis conducted via R Studio includes reliability tests (Cronbach's alpha), multiple linear regression, and the study found that digital marketing exerts a direct positive influence on customer satisfaction, and this impact is significantly enhanced when mediated by customer engagement. This partial mediation suggests that customer interaction via personalized content, feedback mechanisms, and social media participation substantially improves the effectiveness of digital marketing efforts. The study concludes that SME should not only implement digital marketing strategies but also actively foster customer engagement to optimize satisfaction outcomes. Practical recommendations include developing interactive content, using behavior-driven personalization, and deploying responsive digital touchpoints to sustain customer interest and loyalty. These findings provide actionable guidance for SMEs operating in competitive emerging markets, where engagement-centric digital strategies can translate into lasting brand value.

\*Email: [dilipharani@gmail.com](mailto:dilipharani@gmail.com)

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### INTRODUCTION

In today's digital world, small and medium-sized enterprises face countless opportunities (Sharabati et al., 2024). In this era of recovery, the global economy emphasizes the need for progress amidst intense competition. As the backbone of various economies, they provide employment opportunities and are crucial for the long-term digital transformation of businesses (Alkhasoneh et al., 2025). However, there are limitations in terms of funding, talent, and skills. Still, learning new tools during this time can create opportunities and strengthen resilience in chaotic times. This is especially true for small and medium-sized enterprises. As a result of digital marketing, SMEs can now easily, affordably, and accurately relay their messages to customers (Alwan and Alshurideh, 2022). Using social media, search engines, and email, firms are able to customize their content, watch user activities, and keep improving their plans (Rana et al., 2020). SMEs play a major role in growth in countries like Pakistan, but many of them do not have significant marketing or digital resources (Ahmed et al., 2024).

While digital marketing has grown, researchers still have not looked closely at how it impacts the satisfaction of customers, mainly through engaging with them (Junaidi, 2020). How satisfied the customer indicates if their expectations were reached or surpassed, usually because of relevance, trust, and

quick responsiveness online (Mishra et al., 2021). Emotional, mental, and physical actions from customers toward a brand are part of customer engagement. Degrees of satisfaction are increased through both participating in experiences and forming strong bonds (Rather et al., 2023). To demonstrate the causes of online consumer behavior, this study applies the Social Cognitive Theory of Bandura (2009), focusing on digital exposure, learning by seeing, and feedback received from the environment.

In this research, we look at Bake Parlor food to see (1) if digital marketing affects customer satisfaction and (2) if customer engagement plays a role as a mediator in this process. This study provides useful ideas for using technology in SMEs and addresses a need in studies from emerging markets. The rapid evolution of digital marketing has significantly reshaped how small and medium enterprises (SMEs) engage with their customers, offering cost-effective and scalable tools that enhance customer satisfaction and loyalty. Digital strategies such as social media, content marketing, email campaigns, and influencer partnerships allow SMEs to deliver highly personalized and interactive experiences that align with customers' individual preferences and behaviors (Ullah et al., 2023). In emerging markets like Pakistan, where SMEs form the backbone of the economy, the strategic use of digital platforms has become imperative for sustaining competitiveness and building long-term

customer relationships (Sandhu, 2019). Despite the increasing digitalization of business operations, the specific pathways through which digital marketing influences customer satisfaction, particularly via customer engagement, remain underexplored in the context of developing economies (Islam et al., 2023). Customer satisfaction, widely recognized as a key determinant of organizational performance, reflects the extent to which a company's products or services meet or exceed customer expectations. Digital marketing facilitates this by enabling timely, relevant, and two-way communication that enhances trust and perceived value (Lim et al., 2024). Beyond direct communication, the effectiveness of digital marketing is further amplified through customer engagement, which encompasses emotional, cognitive, and behavioral investment in brand interactions (Akbar and Suwitho, 2022). When customers feel more engaged, they usually feel appreciated and related, which increases their sense of satisfaction, willingness to encourage others, and loyalty (Islam et al., 2023). When there is little money and staff, SMEs need to learn how digital marketing influences customer engagement to get the best results from their marketing. Bake Parlor FMGC sector, an SME in Sindh, Pakistan, is used in this study to study the direct effect digital marketing has on customer satisfaction and how customer engagement acts as a mediator. Using SCT as a foundation, the research investigates how what customers see and learn online can reflect on their behavior and how pleased they are with the service (Bandura, 2009; Pekkala and van Zoonen, 2022). Because of SCT, consumers can be influenced by what others say and do on digital media, which affects how they think and reply.

The ideas in this paper offer practical as well as theoretical benefits. In theory, the findings make it possible to use SCT more widely in SME digital marketing, an unexplored area in current research (Lim and Rasul, 2022). It provides practical ideas for SMEs to use data and improve their digital marketing strategies within constrained situations. SMEs can create happy customers and gain an advantage in a digital economy by promoting campaigns that are tailored, interactive, and engaging.

### Theoretical Framework

Studies of consumer behavior influenced by digital marketing rely on strong and current explanations from the Social Cognitive Theory (SCT). At first, SCT tried to explain how learning occurs through social contacts, and it now covers the way people observe and use information on various types of devices. SCT states that actions and reactions are influenced by a mix of personal thoughts, outside circumstances, and practice, and key constructs are self-efficacy and outcome expectations (Pekkala and van Zoonen, 2022). Nowadays, many people are exposed to marketing on social media, websites, and emails, which helps them adopt certain behaviors, preferences, and attitudes based on what they and others respond to (Islam et al., 2023). Because the principle of reciprocal determinism is so important in SCT, it is especially applicable in recent online settings where users interact with and add to the information shared on the web. Because of these digital engagements, both customer opinions and brand behavior are affected. According to research, responses from users and other people, known as environmental stimuli, affect how much customers feel they can trust the brand, find it valuable, and how satisfied they are with it (Rather et al., 2023). Mutual effect proves SCT is apt for understanding how digital marketing changes engagement and satisfaction among SMEs in emerging economies.

### Digital Marketing and Customer Satisfaction

SMEs are now able to reach their audiences in a better way due to digital marketing 'precise options, live statistics, and the extensive

ways they can be found on the internet, including on social media, through email, and on search engines. Because of these tools, SMEs can create targeted campaigns that match well with certain groups of customers (Azit et al., 2022). SMEs in countries where money is limited find digital marketing more cost-effective and can reach more customers than using conventional marketing (Bruce et al., 2023). It has recently been found that how well digital marketing works is closely linked to how satisfied customers are because personal content improves users' feelings of value and how relevant the brand is to them (Rather et al., 2023). By combining data on customers with machine learning, firms can personalize messages based on what they did before, which increases the connection between what customers want and what they get (Islam et al., 2023). Digital platforms work well since they let customers respond to offers and interact quickly, which promotes satisfaction.

New research has found that timely and relevant digital messages raise customer trust and loyalty most when people believe the brand is being transparent, reactive, and socially minded (Mishra et al., 2021). In addition to helping companies keep their customers, such outcomes also help small businesses stay competitive in today's crowded digital market.

### Customer Engagement as a Mediator

Customer engagement includes emotional, mental, and action-based parts of consumer engagement with a company. This relationship, developed between a customer and business, can be seen through different actions such as exchanging content, providing feedback, or advertising for the brand (Mosa, 2022). Most digital platforms depend on features like comment sections, personalized messages, online support, and game elements to help draw customers in and encourage strong emotional and behavioral involvement (Rita et al., 2019).

New studies confirm that engaged customers are happier and more devoted, as they believe the firm cares about them and responds to their needs (Rather et al., 2023). In this sense, engagement serves both as a result of marketing and as a key way to lead marketing actions into satisfying customers in real life. Those who take part in digital actions on business websites—sharing thoughts, joining groups, or producing content—feel more connected and prepared to express their satisfaction with the brand (Islam et al., 2023). Because digital infrastructure and literacy are getting better fast in Pakistan, more SMEs are using social networks and mobile advertising (Pathan et al., 2021). Yet, there is not a lot of research on how engagement affects the tie between digital marketing and satisfaction in this situation. Recent research suggests that companies that use polls, work with influencers, and let users contribute content typically achieve improved outcomes from digital marketing (Ahmed et al., 2024).

A good grasp of customer engagement is crucial for SMEs to improve their digital methods (Lim et al., 2024). With engagement, marketing communication, and customer perception come together and passive content becomes a driver of positive interactions that lead to greater satisfaction and loyalty in the long run.

### Hypotheses Development

Personalized, relevant, and timely messages made possible by digital marketing are a main reason why customers are satisfied in today's business environment. Adopting applications like social media and automatic messaging helps SMEs create interactions that more accurately fit what their customers want (Islam et al., 2023). They help customers think the product is worth more and make them trust and respect the brand more. Because digital

communication is instant, businesses can address needs promptly, fix problems quickly, and stay in regular contact—all meant to increase satisfaction, according to Jin et al. (2024). The use of data analytics allows small companies to tailor their products and messages to meet what matters most to customers.

Using these platforms, users can also enjoy direct messaging, take part in interactive polls, and make use of community-based tools. These aspects allow small businesses to maintain strong links with customers, ensuring they remain happy over many years (Michael, 2025). Therefore, based on current digital marketing dynamics and emerging empirical evidence, this study proposes the first hypothesis: H1: Digital marketing positively influences customer satisfaction. Besides its main effects, digital marketing often drives customer interaction. Things like likes, shares, comments, talking on stories, and partnering with influencers pull customers closer to brands. Such touchpoints play a role in creating feelings, thoughts, and actions towards the brand in a customer (Majeed et al., 2022). Customers who engage with a brand tend to appreciate its responsiveness, relevance, and value, making them much more satisfied (Mishra et al., 2021).

Current research finds that engagement is a key factor connecting marketing efforts and what consumers achieve. Especially, when consumers are engaged, they understand the purpose of digital content better, leading to more worthwhile and satisfying brand experiences (Rather et al., 2023). The mediation effect is important for small and medium companies in emerging markets such as Pakistan, where the use of digital strategies has surpassed traditional outreach efforts because of budget on and changing share trends among the consumers.

Accordingly, the second hypothesis is formulated as follows:

H2: Customer engagement mediates the relationship between digital marketing and customer satisfaction.

This study fills a vital gap in the research by studying these hypotheses in a Pakistani SME (Khan et al., 2023). The majority of previous research has concentrated on major firms or circumstances in industrialized economies. This study adds to the theory and practice by connecting digital marketing, customer engagement, and satisfaction in settings where resources are constrained and the economy is developing (Habib et al., 2022).

## METHODOLOGY

### Research Design and Sampling

A quantitative, cross-sectional research design was used to investigate how digital marketing affects customer satisfaction, and customer engagement was included as a possible mediator in this effect. They looked closely at Bake Parlor FMGC, which is an SME in Sindh, Pakistan. The relevant data for this study were gathered using a purposive sampling approach. Bake parlor decided who to select by looking for those who had used their online systems within that period. Online surveys completed in July 2024 collected data from a total of 300 participants. A link to the survey was shared online using email and various social media platforms among people aged 18 to 60. This age range was picked since it includes the groups that use digital media most widely, in line with recent changes in emerging economy markets (Puranda et al., 2022). Purposive sampling fits well with the study's objective to discover valuable insights from active digital customers, rather than trying to create a broad understanding (Rather et al., 2023).

### Instrument Development

The study consists of three variables, namely digital marketing, customer satisfaction, and customer engagement, which were measured by using 5-point Likert scales. Items were adapted from Ahmed et al. (2024) for digital marketing (8 items). For customer

satisfaction (8 items), adapted from Rather et al. (2023), and for customer engagement (9 items), from Islam et al. (2023). All dimensions had a higher value of Cronbach's alpha, which is 0.70. The structured questionnaire material was used from an existing and reliable scale to make sure that it met both content and construct criteria with a 5-point Likert scale from 1 "strongly agree" to 5 "strongly disagree." All ethical standards, like consent and anonymity, were followed very well. Initially, the questionnaire was given to 20 people prior to the main testing to confirm it was simple to use and understand. This allowed minor adjustments to reflect the feedback before the full testing started. In the study, all research practices followed ethical guidelines, such as making sure everyone agreed and kept data private (Nizar and Janathanan, 2018).

## RESULTS AND DISCUSSION

This study on Bake Parlor FMGC in Sindh finds that digital marketing significantly improves customer satisfaction. Customer engagement plays a partial mediating role, enhancing the impact of digital strategies. Analyses confirm strong reliability, positive correlations, and meaningful regression outcomes supporting Social Cognitive Theory (Omar and Attaya, 2020).

Table 1. Reliability analysis of items.

Measure	Value
Number of Items	25
Cronbach's Alpha (raw)	0.82
Cronbach's Alpha (standardized)	0.82
Guttman's Lambda-6 (G6)	0.86
Average Inter-item Correlation	0.15
Signal-to-Noise Ratio (S/N)	4.5
Alpha Standard Error (ASE)	0.0049
Mean of Items	4.2
Standard Deviation (SD)	0.61
Median Inter-item Correlation	0.13

Table 1, presents the internal consistency of the instrument used; reliability tests were conducted (Anderson, 2025). The instrument, consisting of 25 items, demonstrated good internal consistency with a Cronbach's alpha (raw and standardized) of 0.82 that exceeds the commonly accepted threshold of 0.70 for a research instrument. Guttman's Lambda-6 (0.86) further supports the strong reliability of the scale. The average inter-item correlation (0.15) and mediation inter-item correlation (0.13) fall within the acceptable range, indicating that items are related but not redundant. The signal-to-noise ratio of 4.5 suggests a high proportion of true score variance relative to error variance. The low alpha standard error (0.0049) indicates a stable reliability estimate. The main item score (4.2) and standard deviation (0.61) provide description context for the scale's responses

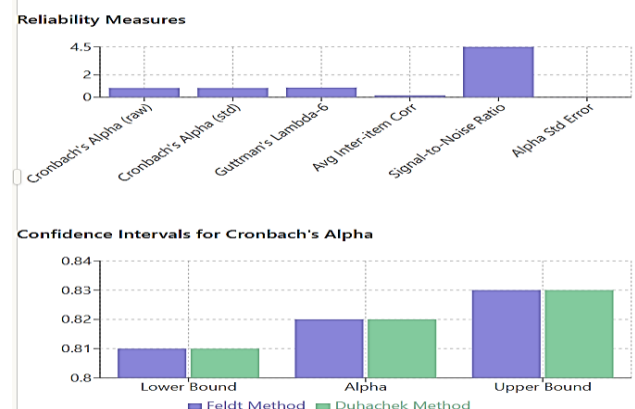


Figure 1. Cronbach's Alpha.

Figure 1 demonstrates the strong reliability of the survey instrument with a high Cronbach's alpha robust signal-to-noise ratio, with supporting metrics like lambda-6 and inter-item correlation confirming inter-consistency. Confidence intervals further validate the reliability estimates (Demirel, 2022).

Table 2 presents the confidence intervals calculated using both Feldt and Duhachek methods (Lower Bound = 0.81, Upper Bound = 0.83) affirm the stability and robustness of the reliability estimates.

Table 3 reveals that digital marketing efforts are perceived positively and are closely linked to a high level of customer engagement and customer satisfaction. This supports showing that effective digital marketing strategies enhance both engagement and satisfaction among customers (Adam, 2017).

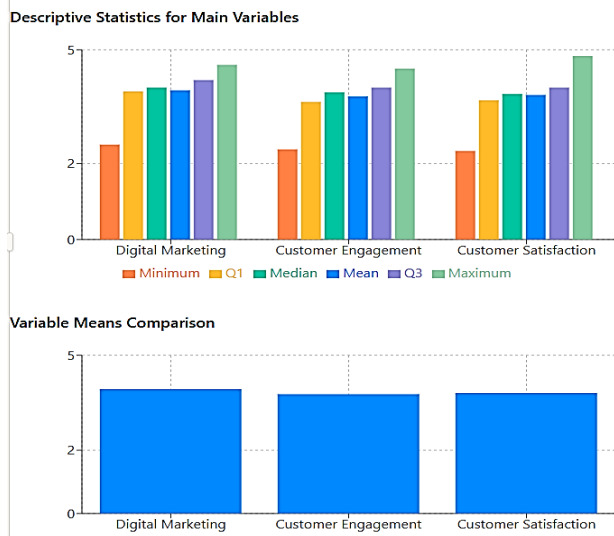


Figure 2. Descriptive statistics.

Figure 2 shows that mean values for digital marketing, customer engagement, and customer satisfaction are all high and closely aligned, indicating strong and consistently positive customer perception across the areas (Sandhu, 2019).

Table 4 reveals a strong and statistically significant relationship among digital marketing, customer engagement, and customer satisfaction. Digital marketing is highly correlated with both

customer engagement ( $r = .777$ ) and customer satisfaction ( $r = .793$ ), while customer engagement also shows a strong correlation with customer satisfaction ( $r = .702$ ). All correlations are significant at  $p < 0.001$ , supporting a robust association that aligns with the mediation model in digital marketing search.

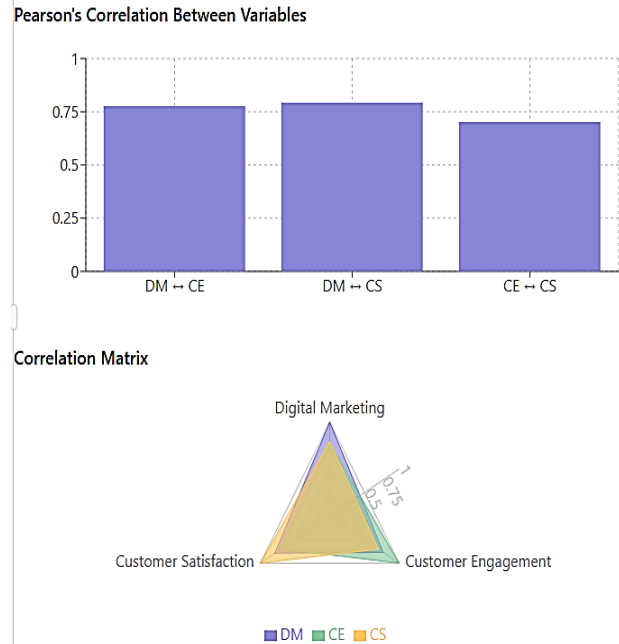


Figure 3. Pearson correlation analysis.

Figure 3 shows a clear analysis of the relationship among digital marketing (DM), customer engagement (CE), and customer satisfaction (CS) by using Pearson's correlation coefficients. It shows that DM is strongly and equally correlated with both CE and CS (about 0.75), while CE and CS also share a notable positive correlation (about 0.65). This strong association indicates that strong digital marketing strategies significantly boost both customer satisfaction and customer engagement, highlighting how interconnected these factors are in shaping positive consumer experiences (Nhung and Ngan, 2022).

Table 2. Confident interval.

Method	Lower Bound	Alpha	Upper Bound
Feldt	0.81	0.82	0.83
Duhachek	0.81	0.82	0.83

Table 3. Descriptive statistics.

Variable	Minimum	Q1	Median	Mean	Q3	Maximum
Digital Marketing	2.5	3.9	4.0	3.931	4.2	4.6
Customer Engagement	2.375	3.625	3.875	3.77	4.0	4.5
Customer Satisfaction	2.333	3.667	3.833	3.808	4.0	4.833

Table 4. Correlation analysis: digital marketing and customer satisfaction.

Variables	1	2	3
1. Digital Marketing	—	.777***	.793***
2. Customer Engagement	—	—	.702***
3. Customer Satisfaction	—	—	—

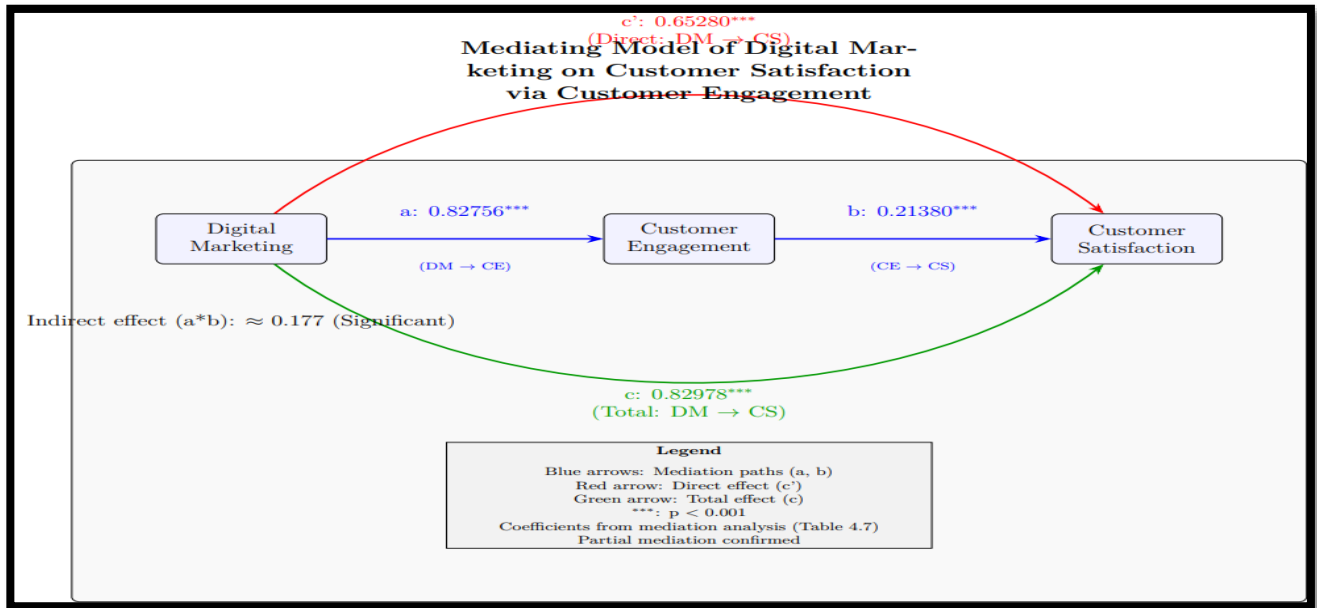


Figure 4. Research model of study.

The model shows that digital marketing has both a direct and an indirect effect on customer satisfaction in SMEs. Customer engagement acts as a partial mediator, strengthening the influence of digital marketing. Statistical paths (a, b, c') confirm significance, with the total effect of digital marketing measured at 0.82978.

#### Regression Analysis

Regression analysis was conducted to examine the direct effect of customer satisfaction on digital marketing (Omar and Atteya, 2020). The finding shows a strong relationship with a multiple R-squared of 0.365 and an adjusted R-squared of 0.662, indicating that customer engagement explains about 60 % variance in digital marketing outcomes. The F-statistic of 453.6 and a highly significant p-value ( $p < 2.2e-16$ ) confirm the model is statistically significant. These findings are consistent with current research, which demonstrates that customer engagement significantly influences digital marketing performance and conversion rates, supporting the importance of engagement strategies in the digital marketing context.

#### Mediation Analysis

Mediation analysis demonstrates that customer engagement shows a significant mediating role between digital marketing and customer satisfaction (Ahmed et al., 2024). Studies indicate

that effective digital marketing strategies enhance customer engagement, which in turn leads to higher customer satisfaction, highlighting the interconnected impact of these variables in positive shopping consumer experiences.

Table 5 presents that the regression output validates a significant positive effect of digital marketing on customer satisfaction. With an R-squared of 0.6287, digital marketing explains about 63% of the variance in customer satisfaction, and the relationship is highly significant ( $p < 2e-16$ ). These findings align with recent research, which consistently shows that effective digital marketing strategies lead to higher customer satisfaction across various industries and contexts.

The study validates that digital marketing impact positively with customer satisfaction, and customer engagement plays a crucial intermediary role. High reliability of the measurement instrument (Cronbach's alpha = 0.82) and elevated ratings across all variables confirm the robustness of the data. Strong correlations suggest close interconnections among digital marketing engagement and satisfaction. Regression analysis shows customer engagement significantly shapes customer views on digital marketing, while mediation results (Table 6) indicate the engagement partially explains the pathway from marketing effort to satisfaction, thus reinforcing its strategic importance.

Table 5. Regression Output (Customer Satisfaction ~ Digital Marketing).

Term	Estimate	Std. Error	t value	p value	Significance
Intercept	0.54675	0.14609	3.742	0.000219	***
Digital Marketing	0.82978	0.03694	22.462	<2e-16	***

Table 6. Mediation summary.

Path	Relationship	Coefficient	Significance
a	DM $\rightarrow$ CE	0.82756	***
b	CE $\rightarrow$ CS (controlling DM)	0.21380	***
c'	DM $\rightarrow$ CS (controlling CE)	0.65280	***
a*b	Indirect effect via CE	$\approx 0.177$	Significant
c	Total effect	$\approx 0.83$	Significant

Note: DM = Digital Marketing, CE = Customer Engagement, CS = Customer Satisfaction.

## Discussion

The study demonstrates strong proof that digital marketing contributes directly and indirectly through customer engagement to enhancing customer satisfaction in small and medium enterprises (SMEs) (Jadhav et al., 2023). This finding aligns with Social Cognitive Theory (SCT), which indicates that people learn behaviors through observation, social interaction, and environmental influence (Bandura, 1986; Rumjaun and Narod, 2025). On the internet, customers notice marketing information, use social media to engage with brands, and create opinions that shape their feelings of satisfaction and loyalty.

It was clear from the study that improving customer satisfaction through digital marketing ( $\beta = 0.82978$ ) highlights how important those strategies are. This corresponds with Chaffey and Ellis-Chadwick's (2019) argument, which suggests that properly built digital marketing strategies support the accurate and pleasant delivery of content that matches customer preferences. Using digital tools allows SMEs to exchange information easily, quickly update consumers, and deliver relevant product information, which raises satisfaction (Zuniarti et al., 2022).

It is clear from the results that digital marketing alone has an influence, but this is far higher when digital marketing causes customers to interact with the brand. This agrees with Brodie et al. (2025) and Brodie et al. (2011), who said that engagement is when a customer participates with a brand mentally, emotionally, and with their actions. Here, engagement allows the results of digital marketing, such as feeling supported and trusting the brand, to materialize.

These findings apply to Pakistani SMEs, as they shift rapidly to digital technology, though progress in strategic digital use remains limited (Soomro et al., 2024). Since marketing funds are not abundant for SMEs in Pakistan, they use social media and digital sites to reach their audiences. With Bake Parlor food, we see how using digital marketing and engaging customers can increase both reach and resonance.

Moreover, the study confirms that being effective in digital marketing is less about being seen a lot and more about how people can interact with and personalize the experience. The data shows that customer satisfaction goes up significantly if digital marketing encourages engagement—proof of SCT's point that engagement involves all three factors: individual, behavior, and environment (Bandura, 2009). Digital ecosystems express this interaction by way of clicks, comments, shares, and talking about a brand.

All in all, the study supports the growing idea that digital marketing serves both to communicate and build closer relationships with customers (Mahida, 2024). Incorporating customer relationships into the model teaches us that SMEs can achieve stronger results from digital efforts by providing interactions, rather than only trying to influence customers one way.

## CONCLUSIONS

This research proves that digital marketing helps SMEs to better satisfy their customers. Using correlation, regression, and mediation modeling has shown that digital marketing increases customer satisfaction. Most importantly, the study points out that customer engagement strongly mediates the relationship, although not entirely. Part of this mediation means customer satisfaction is impacted directly by digital marketing and also indirectly through engaging customers, which leads to even higher satisfaction (Choura and Abou Jeb, 2021).

According to the theory, their discoveries prove that SCT is useful for understanding consumers' actions online (Akar and Dalgic, 2018). It is suggested by SCT that people's social and shared

experiences affect their behaviors and attitudes. Digital marketing relies on interactive sites and engaging materials for customer observational learning, which increases engagement. This shows up as people participating, exchanging knowledge, and feeling connected with the brand, which results in increased satisfaction (Soomro et al., 2024). Therefore, this study adds to the worldwide body of knowledge that links psychology to marketing, providing detailed insights into how digital points of contact shape consumer results.

The findings are important for SMEs in emerging markets like Pakistan, as digital use continues to rise rapidly. This information suggests that SMEs, including Bake Parlor, can design improved digital strategies that support both sending out content and building relationships with customers. Engaged customers appear when SMEs plan interactive promotions, send customized messages, and are dynamic on social media. Modern marketing trends suggest finding success with personalized experiences and building connections, rather than communicating just one way (Brodie et al., 2011).

Yet, there are restrictions on the quality of this study that cannot be ignored. With convenience sampling, the findings are only relevant to a small group, and a single SME can't offer a wide range of case details. Furthermore, limited to cross-sectional data, it is not possible to notice change across time or suggest causes outside the mediation model. It would be useful for researchers to examine these issues over time and in relation to different stages of a customer's experience. Additionally, making the study cross-cultural and looking at other industries would further increase how useful the results are (Phillips Kottler, 2014).

In short, the study reveals that digital marketing and happy customers are both significant for the success of small and medium-sized businesses. Connecting these pieces in the right way allows SMEs to improve customer relationships and keep up with competition in the digital world. As a result, this work provides additional knowledge and suggestions that assist marketers in designing better digital marketing campaigns.

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