

Digitization of MSMEs in Improving the Economy in the Era of COVID-19 Pandemic

Mada Angga Dwi Nata¹, Meyta Pritandhari², Friska Octavia Rosa³

¹Faculty of Economics and Business Economics Education Malang State University, Malang, Indonesia

^{2,3}Faculty of Teacher Training and Education, Muhammadiyah University of Metro, Lampung, Indonesia

Corresponding Author: Mada Angga Dwi Nata

DOI: <https://doi.org/10.52403/ijrr.20220516>

ABSTRACT

The Covid-19 pandemic that resulted in a prolonged economic crisis if not taken seriously. The implementation of strict health protocols was put in place to reduce the number of covid 19 spread. This resulted in the economy, especially MSMEs, being seriously affected. To overcome this, one solution is the digitization of MSMEs in the framework of national economic recovery. Opportunities and challenges for MSMEs in digitizing their businesses. The easier access to sales with digital systems can directly increase the income of MSMEs. However, with the implementation of digitalization there will be increasingly fierce competition. Therefore, MSMEs must have a creative and innovative strategy for their business to be able to maintain their business.

Keywords: digitization, covid 19 pandemic, MSMEs

INTRODUCTION

MSMEs (Micro, Small and Medium Enterprises) are one of the business sectors that can support the Indonesian economy. MSMEs experience many challenges in running their business, including lack of capital needs, business licenses, branding to business marketing. The number of business actors resulted in intense business competition. Therefore, business actors must make products needed by consumers with good quality.

The Covid-19 pandemic that hit Indonesia has had a significant impact on

the MSME sector. Government policy regarding health protocols on minimizing the spread of Covid 19 by being at home only has an impact on MSME turnover. This challenge is very heavy run by MSME actors to be able to survive even many who go out of business. Many businesses have suffered destruction, but MSMEs were able to survive and even increased by 350% (Wijoyo & Widiyanti, 2020). MSME actors must be innovative in making breakthroughs so that their businesses can continue to survive. However, the Covid-19 pandemic conditions encourage creativity and innovation in products and sales. According to Habibah et al (2020) stated that with the development of technology and information is used as a medium that can be a human solution in terms of work, especially during the Covid-19 pandemic.

The rapidly growing development of technology also has a direct impact on the MSME sector. The choice is only two, namely continue to develop following the trend of technological development or retreat slowly because it is not able to compete. According to Fuadi et al (2021) Technology can change the paradigm of people to always innovate, so that it becomes more efficient and effective and has an impact on the online marketing system so that technological progress greatly affects the economy. Meanwhile, according to Darto (2014) the role of the internet is a necessity for MSME players in

transforming their businesses to increase sales that can strengthen business resilience.

The majority of MSME players have thought about adopting a digitalization system in sales. The development of digital-based MSMEs has grown rapidly in various fields of MSMEs both from medium to micro scale. A problem that often arises in the digitization of MSMEs is the lack of technological literacy owned by MSME actors. Many business actors are still gaptek (stuttering technology) in using technology and information. This is usually often the case for business actors who are old and less quickly adapt to technology. Another problem that arises is the limited facilities owned such as gadgets and internet connections that have not been maximized.

The role of the government in increasing the digitization of MSMEs is needed. The government should be able to provide training and capital for MSME players to learn digitalization. Various government policies to increase the number of digitalization of MSMEs. The Ministry of Cooperatives and SMEs (Kemen Kop UKM) and Meta in Indonesia strengthened collaboration that aims to help MSME players utilize digital technology in developing businesses in the MSME digitization program in 2022. In a survey conducted by Metaverse, it was found that 22% of MSMEs actively utilized the Facebook application and further reported that their sales last month were higher than the same month in the previous year. In other words, social media is a means of entrepreneurial development and sustainability of UMKM (Purwana, et al, 2017). MSME actors in Indonesia have great potential in the development of digitalization of MSMEs to be more advanced and developed.

MATERIALS AND METHODS

1. Digitization of MSMEs

MSME strategies in increasing sales of their products are diverse. Very tight business competition encourages MSME actors to have done a lot of digital

transformation to maintain their business. Not only domestic competition but products from abroad have mushroomed in the market. MSME strategies to be able to compete start from good product quality and affordable prices. Currently consumers are able to compare quality and price with other sellers.

Digitalization is the process of switching from activities, documents to digital forms. According to Farhani and Chaniago (2021) Not all MSME actors understand digitalization, most of them only define it as limited to opening a store online. The digitization of MSMEs is not just doing marketing online. However, digitalization begins when going to open a business, making a product, packaging, administration to the field of marketing. Any type of business carried out in both the field of services and manufacturing that utilizes computer technology online can be called a digital business. Digital transformation is a change in methods in handling a job using information technology to be more effective and efficient (Danuri: 2017). The rapid development of digitalization makes business actors to always update with existing systems.

Some obstacles in carrying out business digitization faced by MSME actors. The lack of trust between sellers and buyers is one of the reasons MSMEs have not gone online. Understanding MSME actors is still limited in the role of technology in marketing access. Sellers and buyers still feel insecure about making payments online. In this case, the government can socialize about the digitization of MSMEs.

Some of the obstacles faced by MSMEs are; First, MSME actors are still constrained on the production capacity of goods. Even many MSMEs fail in the digital market, because they do not meet the demands of the digital market. Second, the quality of endurance of MSME actors is not evenly distributed. Because in this digital market, actors must be able to compete with large companies that during the pandemic also switched to using digital platforms. Third,

strengthening digital literacy education and strengthening human resources for MSME business actors (Suwarni, et al, 2019) is needed.

The era of the industrial revolution 4.0 has turned all manual activities into all digital. Changes in people's behavior have become accustomed to doing activities digitally. The ease of doing everything digitally is seen when making a purchase of an item. According to Delloitte Access Economics (2015) states that consumers are increasingly accustomed to making decisions based on digital content and going online in purchasing goods. This is dominated by some interesting advertisements and with the ease of online purchases, consumers are affected to make purchases of goods even if they are not needed as a necessity. MSME actors are turning to the use of digital technology including social media for the development of MSMEs in Indonesia (Setyanyo, et al: 2015)

According to Astuti, et al (2020) that the digitization of MSMEs is an opportunity in marketing MSME products. The number of chat-based social media users is increasing and increasingly open opportunities for SMEs to develop smartphone grips (Lucyantoro & Rachmansyah, 2017; Nugraha, 2017). Marketing of MSME products will be more effective and efficient

through the use of technological developments. According to Al-Damoe, Hamid, and Omar (2015) the competitive challenges faced by industrial entities in the global economy are currently classified into three, namely, sustainability challenges, global challenges, and technological challenges. Digitalization of businesses is a challenge and opportunity that is quite promising for MSMEs. The business opportunity is to be able to market products with a wide market share even abroad. It is undeniable that globalization has an impact on product competition between countries. Consumers are free to choose what products to buy. However, consumer considerations in choosing products are usually seen from the quality and price of goods. The challenge for MSMEs is to create quality products at competitive prices so that products can be selected by consumers.

The human resources of traditionally poorly educated SMEs, lack of capital, inadequate technical knowledge, basic utilities, and appropriate or improved technologies, and low training and skills development, can be viewed as problems that hinder the growth performance of SMEs (Prasanna et al. 2019).

Some of the reasons for marketing constraints over the internet are described in the chart presented in figure 1:

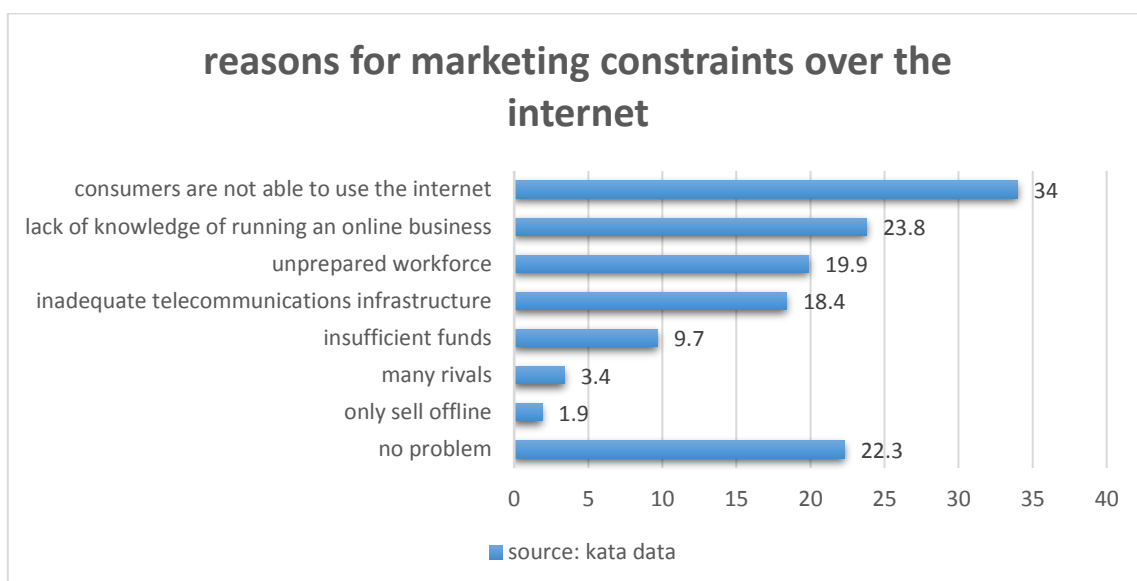


Figure 1. Chart on marketing constraints over the internet

The market is a place where sellers and buyers meet in person. With the development of technology today, the definition of the market has shifted because the meeting place of sellers and buyers is not just in the real market. Sellers and buyers can meet in cyberspace with various *e commers* application platforms in making sales transactions. Sales made in cyberspace (online) have grown by leaps and bounds. Various products sold from various online stores throughout Indonesia can be purchased by consumers throughout Indonesia as well. So buyers can choose and search for what products they want just at home without having to go to the market.

2. METHOD

The purpose of this research is to describe or explain how the digitization of MSMEs during the Covid-19 pandemic. This article uses library studies in analyzing existing materials or references. Literature studies can study various reference books as well as similar previous research results to gain a theoretical foundation on the problem to be studied (Sarwono, 2006 in Mirzaqon, 2017). Meanwhile, according to Khatibah (2011) stated that library research as an activity carried out systematically to collect, process, and conclude data using certain methods / techniques to find answers to problems faced through literature research. Library study research is conducted with SWOT analysis by comparing relevant references, analyzed and inferred.

RESULT

MSMEs are a form of community business both micro to medium scale based on ideas from the community itself. MSMEs play a role in improving the country's economy and reducing the number of unemployed. MSMEs have strong and independent characteristics so that the impact of the economic crisis does not have a significant effect. But MSMEs still need a foundation that can be a focus in facing a difficult economic situation. Currently, MSME investors are immediately adopting

the use of digital in the development of their business units. That way this huge market potential is not taken by outside product products (Kompas.com, 2020). According to Purwana (2017) that the rapid development of technology, the digital world and the internet certainly also has an impact on the world of marketing. Marketing trends in the world are moving from the originally conventional (offline) to digital (online)

The number of obstacles and problems of MSMEs is the motivation of MSMEs to be stronger. The development of technology is a challenge as well as a solution to the problems that have been in MSMEs. Business people have slowly begun to shift their thinking patterns related to digitalization. Using information technology in all types of companies can have a significant impact on productivity improvement (Hadadi and Almsafir 2013).

The digitization of MSMEs has many benefits for both MSME actors and consumers. Benefits for MSME actors include the following:

1. Expanding marketing reach
2. Facilitate marketing
3. Increase sales turnover
4. Save on advertising costs and rent a place of business

Benefits for consumers:

1. Ease of shopping
2. More product selection
3. Can compare quality and price with other sellers

Various benefits obtained from the digital transformation of MSMEs for both producers and consumers. But what needs to be underlined is the existence of intense competition between one business and another. Tight competition will actually not be a serious problem for MSMEs if the business owned is independent, has characteristics and good quality. MSMEs that have been independent must also

maintain product quality and prices that compete with competitors.

MSME actors actually want to implement a digital system on the sale of their products. But the lack of knowledge and information possessed by MSME actors is the main obstacle. They do not yet understand how to sell online, online payments and delivery systems. The need to build trust between sellers and buyers is also needed in the digitization of MSMEs.

Obstacles in the implementation of MSME digitization are as follows:

1. Inadequate facilities and internet
2. Gaptak (technology stutter)
3. Lack of public trust with digital systems

The problem of digitalization of MSMEs is in MSME actors who are not ready to implement digital systems. The majority of such MSME actors are the more senior generation in running a business so they are difficult to quickly adapt to the new system. The government should be able to socialize and train the digitization of MSMEs for business actors. In addition, the government improved facilities, especially unstable internet access in all regions. Building trust between sellers and buyers must be built by providing good service during purchase transactions.

DISCUSSION

Indonesia's economy is supported by many MSME industries. If the condition of MSMEs in Indonesia is experiencing good conditions, it will have an impact on the Indonesian economy and vice versa if bad economic conditions will also have an impact on the economy that is getting worse. The many problems of MSMEs in the midst of the Covid pandemic caused many MSMEs to give up and give up their businesses. This happens to the majority of MSMEs who lack creativity and high innovation. There are limited capital, human resources and business understanding, so not a few MSMEs have experienced bankruptcy during the COVID-19 pandemic

(Sugiarti, Sari, Hadiyat, 2020). According to Febrantara (2020) stated that the impact of the pandemic on SMEs or MSMEs is believed to be greater if not resolved immediately. Therefore, the government and the community must be able to cooperate in generating the national economy.

According to Suwatno (2017) the information technology revolution has changed the world of marketing that was previously traditional and conventional has been integrated in the digital world. MSMEs must be able to adapt to the development of information technology to increase their business productivity. The digitization of MSMEs is an opportunity to move up the class, compete and innovate even better.

So far, the condition of MSMEs is still unstable both in terms of products produced, marketing to financial administration. The products produced do not have strong branding so consumers do not know about MSME products. Marketing is still offline by waiting for consumers to come to the store. Financial administration in MSMEs is still very simple, namely by recording sales manually which sometimes forgets to be recorded so that the profits are not yet known. By applying digitalization to MSMEs can overcome various problems that have been experienced by MSME actors. Digitalization can transform the value offered to customers by creating new business models that are more relevant and adaptive to the emerging business environment. Digital marketing will make it easier for business actors to be able to capture market and consumer share (Start, & Rohmah, 2020). Digitalization can encourage MSMEs to be more advanced in terms of product sales, branding to have an impact on increased sales turnover. Not only in terms of product sales, the search for raw materials can also be done online.

SWOT analysis of MSME digitization in generating the economy during the Covid-19 pandemic is described in table 1:

Table 1. SWOT Analysis On Digitalization Of MSMEs

Strength	Weakness	Opportunity	Threat
<ul style="list-style-type: none"> Ease of making sales transactions Save on operational costs Increase sales turnover 	<ul style="list-style-type: none"> Sellers and buyers must have digital literacy 	<ul style="list-style-type: none"> Has a wide market share 	<ul style="list-style-type: none"> Opportunities to cheat in transactions

Sales transactions made online must have trust between the seller and the buyer. The seller provides good service to the buyer by providing photos or images that match the original and describing the product according to the original item. Thus the buyer will make the purchase in the belief that the item to be purchased is really in good condition according to the estimate.

MSMEs that can still survive in the midst of the Covid-19 pandemic are expected to be a supporter of the Indonesian economy. National economic recovery after the Covid-19 pandemic is a joint task of all communities. Gotong royong community by supporting the movement to buy domestic products to strengthen the country's economy. Existing local products can now compete with products that come from abroad. Therefore love domestic products so that they can help the national economic recovery.

Building a digital-based business is not easy. In building a business must have challenges and competition is very tight. If an MSME leader is not adaptive to digital media, then MSMEs will be slow in adopting the use of digital media. In fact, the ability to use ICT also determines the success of the business [19 A business made must have better product innovation than its competitors. Price and quality greatly affect the product to be sold. Smart consumers can compare quality and price easily so that the character of the product sold must be strengthened.

CONCLUSION

The condition of the Covid-19 pandemic caused many obstacles experienced by MSMEs, especially in marketing which declined sharply. MSMEs that cannot survive this condition choose to close their business. Digitalization is one of the alternative solutions for MSMEs to

survive in the midst of the Covid-19 pandemic. Digitalization is not just product marketing that is done online. Digitalization can be started when making a product, *branding*, marketing to administration and finance is done with a system and can be accessed online. The implementation of MSME digitization can strengthen MSMEs by increasing product sales to a good financial system.

Acknowledgement: None

Conflict of Interest: None

Source of Funding: None

REFERENCES

- Al-Damoe, Fathi Mohamed Abduljlil, Kamal Ab Hamid, and Khairi Mohamed Omar. 2015. "Human Resource Management Practices on Human Resource Outcomes in Libyan Firms: Empirical Evidence
- Astuti, R.P., Kartono, K., dan Rahmadi, R. (2020). Pengembangan UMKM Melalui Digitalisasi Teknologi Dan Integrasi Akses Permodalan. *Ethos. Jurnal Penelitian dan Pengabdian kepada Masyarakat* 8 (2): 248-256
- Awali, Husni dan Rohmah, Farida. (2020) Urgensi Pemanfaatan E-Marketing Pada Keberlangsungan Umkm Di Kota Pekalongan Di Tengah Dampak Covid-19. *Jurnal Ekonomi dan Bisnis Islam*, 2 (1), 1-14
- Chaniago, Harmon., Sayuti, Abdul Malik. 2019. Peran Adopsi Teknologi Social Media Terhadap Niat Berwirausaha Mahasiswa. Studi pada Mahasiswa Vokasi Non Rekrayasa Polban. *Jurnal Riset Bisnis dan Investasi*. Vol 5 No. 3. Desember 2019
- Danuri, M. 2019. "Development and Transformation of Digital Technology", *Infokam*. XV(II), pp. 116- 123.
- Darto, Wahidin N. (2014). *Konstruksi Pengusaha Kampung Ukm Digital Kota Semarang*. 151–156.

7. Deloitte Access Economics. 2015. UKM PemicuKemajuan Indonesia Instrumen Pertumbuhan Nusantara.
8. Farhani, I., & Chaniago, H. (2021, September). FaktorPenentuTransformasi Digital UMKM: Bukti dari Indonesia. In *Prosiding Industrial Research Workshop and National Seminar* (Vol. 12, pp. 1010-1015).
9. Febrantara, D. (2020, 19 April). Bagaimana Penanganan UKM di Berbagai Negara Saat Ada Pandemi Covid-19?.DDTC News. Diaksesdari:
<https://news.ddtc.co.id/bagaimana-penanganan-ukm-di-berbagai-negara-saat-ada-pandemi-covid-19-20386>
10. Fuadi, D. S., Akhyadi, A. S., & Saripah, I. (2021). Systematic Review: Strategi PemberdayaanPelaku UMKM Menuju Ekonomi Digital MelaluiAksiSosial. *Diklus: Jurnal Pendidikan LuarSekolah*, 5(1), 1-13.
11. Habibah, R., Salsabila, U. H., Lestari, W. M., Andaresta, O., & Yulianingsih, D. (2020). PemanfaatanTeknologi Media Pembelajaran Di Masa Pandemi Covid-19. *Trapsila: Jurnal Pendidikan Dasar Vol 2 No 2*
12. Hadadi, Kiandokht and Mahmoud Khalid Almsafir. 2013. "The Relationship between Information Technology and Marketing." *Proceedings - 2013 International Conference on Advanced Computer Science Applications and Technologies, ACSAT 2013 (December 2013):238-43*
13. Kompas.com. (2020). <https://money.kompas.com/read/2020/12/03/192200426/minta-umkm-percepat-adopsi-digital-menteri-teten-jangan-sampai-pasar-kita>
14. Li, F. Leading digital transformation: Three emerging approaches for managing the transition. *Int. J. Oper. Prod. Manag.* 2020, ahead-of-print.
15. Lucyantoro, B. I., & Rachmansyah, M. R. 2017. Penerapan Strategi Digital Marketing, TeoriAntrianTerhadap Tingkat KepuasanPelanggan (StudiKasus Di MybcaCiputra World Surabaya). Universitas 45 Surabaya.
16. Mirzaqon, T, A dan Budi Purwoko. (2017). StudiKepustakaanMengenaiLandasanTeori dan PraktikKonseling Expressive Writing. *Jurnal BK Unesa*, 8 (1).
17. Nugraha, A. E. P. 2017. Start Up Digital Business: Sebagai Solusi Penggerak Wirausaha Muda. *Jurnal NUSAMBA*, 2(1), 1-9.
18. Pezeshki, Vahid et al. 2011. "The Role of Relationship Marketing in Customer Orientation Process in the Banking Industry with Focus on Loyalty." *srn Page 151 3(1):155-67*.
19. Prasanna, R. P. I. R. et al. 2019. "Sustainability of SMEs in the Competition: A Systemic Review on Technological Challenges and SME Performance." *Journal of Open Innovation: Technology, Market, and Complexity* 5(4):1-18.
20. Purwana, D., Rahmi, & Aditya, S. 2017. Pemanfaatan Digital Marketing Bagi Usaha Mikro, Kecil, dan Menengah (UMKM) Di KelurahanMalaka Sari, Duren Sawit. *JurnalPemberdayaan Masyarakat Madani (JPPM)* 1(1): 1 - 17
21. Setyanto, A. R., Samudro, B. R., Pratama, Y. P., & Soesilo, A. M. (2015). *Kajian Strategi Pengembangan UMKM Melalui Media Sosial (Ruang Lingkup Kampung Batik Laweyan)*. *Sustainable Competitive Advantage (SCA)*, 5(1).
22. Suwatno. (2017). *Komunikasi Pemasaran Kontekstual*. Bandung: SimbiosisRekatama Media.
23. Wijoyo, H.&Widiyanti. (2020). Digitalisasi UsahaMikro Kecil Dan Menengah (UMKM) Di Era Pandemi Covid-19. *Prosiding Seminar Nasional Kahuripan*.

How to cite this article: Mada Angga Dwi Nata, Meyta Pritandhari, Friska Octavia Rosa. Digitization of MSMEs in Improving the Economy in the Era of COVID-19 Pandemic. *International Journal of Research and Review*. 2022; 9(5):95-101. DOI:<https://doi.org/10.52403/ijrr.20220516>
