

MSMEs Empowerment through Digital Innovation: The Key to Success of E-Commerce in Indonesia

Wilya Achmad

Department of Social Welfare, Faculty of Social Science and Political Science, Universitas Pasundan, Bandung, Indonesia

Abstract

The growth of digital technology and the adoption of e-commerce have provided new opportunities for MSMEs to expand their market reach and increase their competitiveness. However, despite their potential, there are still many MSMEs in Indonesia who experience difficulties in implementing e-commerce and making optimal use of digital innovation. This study aims to analyze the role of digital innovation in empowering Micro, Small and Medium Enterprises (MSMEs) in Indonesia through the implementation of e-commerce. This research will use a qualitative approach by conducting case studies of a number of MSMEs in Indonesia that have successfully implemented digital innovation in their operations. The results of this study are expected to provide a better understanding of the role of digital innovation in empowering MSMEs in Indonesia through e-commerce. In addition, this research is also expected to be able to identify the challenges and obstacles faced by MSMEs in adopting digital innovation, as well as provide policy recommendations and strategies to increase the accessibility and success of e-commerce for MSMEs in Indonesia.

Keywords: MSME empowerment, digital innovation, e-commerce.

1. Introduction

Micro, Small, and Medium-Sized Enterprises (MSMEs) are crucial to a nation's economic growth. MSMEs are one of the manifestations of the people's economy that needs to develop in Indonesia. Because this sector is able to offer employment opportunities that can accommodate a large workforce, it is anticipated that it will contribute to an increase in income that will enable people to meet their basic needs (Windusancono, 2021).

In order for MSMEs to flourish and be able to support the stability of the national economy, it is vital to strengthen or empower them. In order to boost production and advance and grow the MSME sector as a whole, MSME empowerment is a strategic move (Ondang et al., 2019). In addition to expanding production, several initiatives to support MSMEs must also increase product marketing because, generally speaking, MSMEs in Indonesia struggle to grow (Sedyastuti, 2018).

The corporate environment in several areas has changed recently as a result of digitization. MSMEs now have new potential to broaden their market reach, boost operational effectiveness, and boost their competitiveness thanks to digital innovation, particularly through e-commerce platforms. With the help of e-commerce, MSMEs may expand their consumer base, sell goods and services online, and overcome geographical restrictions (Trulline, 2021).

E-commerce is a system or paradigm that transforms traditional business into electronic business, namely by using ICT (information communication technology), or online technology. E-commerce is defined as "the process of buying and selling both in the form of goods, services, or information that is carried out through internet media" in its broadest sense (Siregar, 2019).

Nevertheless, despite their potential, a lot of MSMEs in Indonesia continue to encounter challenges while attempting to adapt and make use of digital innovation, particularly in the context of e-commerce (Widjanarko et al., 2022). Lack

* Corresponding author.

E-mail address: wilyaachmad@unpas.ac.id

of digital knowledge and expertise, restricted access to ICT infrastructure, and ignorance of the advantages and possibilities of e-commerce are a few of the challenges that MSMEs may encounter (Nurjaman, 2022).

In order to better understand how to empower MSMEs, this study will focus on the crucial role that e-commerce plays in the growth and success of MSMEs in Indonesia. This study will examine the variables that affect MSMEs' ability to successfully execute e-commerce and to adopt digital technologies.

The findings of this study are anticipated to offer direction and suggestions for MSMEs, the administration, and other stakeholders in order to improve MSME empowerment through digital innovation, particularly through the use of e-commerce. This study is also anticipated to advance academic knowledge on how digital innovation supports the growth of Indonesia's MSME sector and promotes inclusive economic development. The government and associated institutions can create more effective policies and programs to assist the adoption of digital innovations by MSMEs if they have a better grasp of the critical elements impacting the success of e-commerce in the context of MSMEs.

Additionally, MSMEs that have not yet tapped into the promise of digital innovation, particularly through e-commerce platforms, can profit practically from this research. The findings of this study will provide light on best practices, successful marketing approaches, and doable actions MSMEs can take to strengthen their online presence. MSMEs can boost their competitiveness, broaden their market reach, and achieve sustainable growth as a result.

2. Literature Review

2.1. Micro small and Medium Enterprises

According to Article 1 of Law No. 20 of 2008 Regarding MSMEs, MSMEs are defined as follows: Micro-enterprises are legally defined as "profitable businesses owned by individuals and/or individual business entities" (Halim, 2020). Independent economic activity that is carried out by an individual or business entity that is not a subsidiary or branch of a company that is owned, controlled, or becomes part, directly or indirectly, of a medium or large business that meets the criteria for small businesses as referred to with law is considered to be a small business (Nalini, 2021). The term "medium-sized business" refers to a self-sustaining economic enterprise run by an individual or business entity that is not owned, controlled, or a part of another company that is either small or large in terms of net worth or annual sales. Consistent with statutory mandates (Suci, 2017).

2.2. Digital Innovation

Digital innovation is the application of new digital technologies to solve problems faced by humans. Digital innovation is a process that must be carried out continuously, so that the problems faced get solutions. Digital innovation is not only carried out by individuals (Sugiono, 2020). But it is also carried out by large organizations such as companies to develop their business activities. Thus, digital innovation can find solutions for business activities that are more creative, inventive, and have better product quality. As a result, a business activity that involves digital innovation can produce products easier, faster and cheaper (Ayodya, 2020).

Through digital innovation, companies can address consumer, product, and management issues. Thus increasing profits and accelerating the distribution of products to consumers. Companies that carry out digital innovation are not resistant to change. The advantage, they will not be left behind by its competitors and remain the choice of consumers. If the company's productivity runs slowly, it will incur more costs. To overcome this, we can take advantage of digital innovation and speed up business activities so as to lighten the human workload and save more on production costs (Budiarto et al, 2018).

2.3. E-commerce

Electronic commerce is an abbreviation that comes from the combination of two words: electronic and commerce. When taken at face value, this term refers to business conducted online. That is to say, all different kinds of business involve some kind of marketing and distribution of products, which typically takes place over the internet or other digital networks. E-commerce, or internet commerce, can be defined more simply as any type of commercial activity that takes place through the internet. According to Jauhari (2018), e-commerce can be conducted via a variety of devices, from desktop and laptop computers to mobile phones. You can acquire a wide variety of services by

engaging in e-commerce transactions, beginning with the purchase of tickets for various modes of transportation, continuing with the payment of bills for things like energy and water, and then moving on to banking and investing services. According to Pradana (2015), there are four different types of e-commerce transactions that can take place: business to business (B2B), business to consumer (B2C), consumer to consumer (C2B), and consumer to business (C2B).

3. Research Method

The research method used in writing this research was descriptive qualitative research, which is research conducted to provide a more detailed description of a symptom or phenomenon with the goal of determining how MSME Empowerment through Digital Innovation is the Key to E-Commerce Success in Indonesia. Sugiono (2011) defines qualitative research as a research method based on postpositivism philosophy, used to examine the conditions of natural objects, where the researcher is the key instrument, data collection techniques are triangulation, data analysis is inductive or qualitative, and qualitative research results emphasize meaning rather than generalization. According to Nana Syaodih Sukmadinata (2011), qualitative descriptive research is designed to explain and portray existent phenomena, both natural and man-made, with a focus on characteristics, quality, and interdependence of activities. Furthermore, descriptive research does not provide treatment, manipulation, or adjustments to the variables evaluated, but rather describes a state as it already exists. The sole treatment provided was the research, which was conducted through observation, interviews, and documentation.

4. Results and Discussions

4.1. Factors influencing the successful implementation of e-commerce in MSMEs

In an effort to achieve the success of implementing e-commerce in the MSME sector, it is strongly influenced by several things, namely:

a) Availability of Digital Infrastructure

The availability of digital infrastructure plays a crucial role in the successful implementation of e-commerce by MSMEs. Adequate digital infrastructure includes aspects such as stable and fast internet access, reliable connectivity, and technology that supports e-commerce operations.

First of all, stable and fast internet access is very important for MSMEs in running their business through e-commerce platforms. With good internet access, MSMEs can manage and update their inventory, interact with customers online, and make transactions easily and efficiently. Limited internet access that is slow or unstable can hamper the ability of MSMEs to operate effectively in a fast and dynamic e-commerce environment.

In addition, reliable connectivity is also a determining factor. MSMEs need to ensure that they can connect with customers, partners and e-commerce platform providers easily and seamlessly. If connectivity is unstable or frequently interrupted, MSMEs may lose opportunities to forge strategic partnerships, interact with customers, or access the resources needed to grow their business.

The technology that supports e-commerce operations is also important. MSMEs need to have access to technology that allows them to run e-commerce platforms smoothly. For example, they need to use appropriate hardware and software to manage inventory, process orders and analyze data. If MSMEs do not have sufficient technology, they may experience difficulties in optimizing their e-commerce operations, which can affect customer experience and business efficiency.

b) Digital Knowledge and Skills

Digital knowledge and skills are factors that greatly influence the successful implementation of e-commerce in MSMEs. MSMEs need to have a good understanding of e-commerce concepts and practices, as well as skills in using related digital technologies.

MSME owners and employees need to have adequate knowledge of the concept of e-commerce, including an understanding of online marketplaces, e-commerce business models, digital marketing strategies, and managing

online transactions. This knowledge will assist MSMEs in planning and implementing the right strategy to operate in an e-commerce environment.

Besides knowledge, digital skills are also very important. MSMEs need to be able to use a variety of digital tools, such as e-commerce platforms, inventory management software and data analysis tools. They also need to have skills in managing social media, doing search engine optimization (SEO), and being able to communicate and interact with customers online. With these skills, MSMEs can optimize their e-commerce potential and create a good customer experience.

Increasing digital knowledge and skills in MSMEs can be achieved through various means, such as training and special education. Governments, educational institutions and business organizations can play an important role in providing programs that help MSMEs improve their digital understanding and skills. In addition, collaboration with digital experts and e-commerce consultants can also help MSMEs get the necessary guidance and support to face the challenges of e-commerce implementation.

c) Marketing and Branding Strategy

Marketing and branding strategies have a crucial role in the successful implementation of e-commerce in MSMEs. An effective marketing strategy will help MSMEs to expand market reach, increase brand visibility, and increase sales through e-commerce platforms.

MSMEs need to develop a marketing strategy that suits their target market. This involves a deep understanding of customer profiles, their preferences and the needs to be met. By understanding the target market well, MSMEs can adjust their marketing strategy, whether in terms of content, promotion or ad targeting, in order to attract and influence potential customers effectively.

In addition, strong branding is also an important element in marketing strategy. SMEs need to build a consistent brand image and reflect their unique values. Strong branding will help MSMEs differentiate themselves from competitors, create an easily recognizable identity, and build customer trust. In the context of e-commerce, strong branding will help MSMEs to gain competitive advantage and increase the attractiveness of their products or services on e-commerce platforms.

Digital marketing strategies are also important for increasing the success of MSME e-commerce. MSMEs need to utilize social media, search engine marketing, online advertising, and other digital tools to reach their target audience effectively. This strategy involves choosing the right channels, using relevant and interesting content, and measuring and analyzing data to optimize marketing campaigns.

A good marketing and branding strategy will help MSMEs in building their presence on e-commerce platforms. By developing the right marketing strategy and building strong branding, MSMEs can increase brand visibility, attract potential customers, and increase sales through e-commerce. In the digital era, effective marketing and branding strategies are important factors that differentiate MSMEs that are successful in e-commerce from those that are not.

d) Product and Service Quality

In a competitive e-commerce environment, MSMEs need to ensure that the products they sell are of good quality and meet customer expectations. Product quality is a very important factor in creating customer satisfaction. MSMEs need to ensure that the products they offer have the desired features, maintain quality, and provide the promised benefits. Good product quality will give customers a positive experience, increase their level of trust, and encourage positive reviews that can help build an MSME business reputation.

In addition, responsive and satisfying customer service is also a key factor in e-commerce. MSMEs need to respond to customer inquiries, requests and complaints quickly and in a friendly manner. Providing a positive customer experience through good service will increase customer satisfaction, build loyalty, and can trigger repeat purchases or referrals from satisfied customers.

In addition to the quality of products and services, MSMEs also need to consider the speed and reliability of product delivery. Timely and reliable delivery will provide a good experience for customers. MSMEs need to work with reliable delivery service providers to ensure that products reach customers safely and on time.

In the era of e-commerce, the business reputation of MSMEs is highly dependent on the quality of the products and services they offer. MSMEs that are able to provide quality products, good customer service, and reliable delivery will build customer trust, increase satisfaction, and create a good reputation. Conversely, deficiencies in product and service quality can negatively impact a business's image and lead to lost customers.

In order to increase the success of e-commerce implementation, MSMEs need to focus on developing and maintaining superior quality products and services. Thus, they can build strong relationships with customers, increase satisfaction and loyalty, and achieve success in a competitive e-commerce business environment.

4.2. MSME Empowerment Through Digital Innovation

In this research, according to the author, there are several forms of MSME empowerment through digital innovation that can be carried out, namely:

a) E-commerce Platform Development

The development of an e-commerce platform is a form of empowering MSMEs through digital innovation. This involves creating or using an online platform that allows MSMEs to sell their products and services digitally. In this context, an e-commerce platform can be in the form of a special website built by MSMEs themselves, or joining existing e-commerce platforms such as Tokopedia, Shopee or Bukalapak. Through this platform, MSMEs can expand their market reach, reach a wider range of potential consumers, and increase their brand visibility.

The development of an e-commerce platform enables MSMEs to display product catalogs online, provide complete product information, manage payment systems, and manage customer orders. With these features, MSMEs can provide a comfortable and easy shopping experience for customers. In addition, e-commerce platforms can also provide support in terms of inventory management, payment processing, and delivery of goods. Several e-commerce platforms even offer logistics solutions that can assist MSMEs in delivering products to customers quickly and efficiently.

Through the development of an e-commerce platform, MSMEs can also take advantage of the analytical features provided by the platform. This feature allows MSMEs to track sales data, identify consumer trends, and gain valuable insights that can help them make better business decisions. The development of an e-commerce platform gives MSMEs access to a wider market, both at the local, national and international levels. This opens opportunities for MSMEs to grow their business, increase sales, and expand their customer base. In the digital era that continues to grow, the development of an e-commerce platform is an important step for MSMEs to transform into businesses that are adaptive and competitive in the global market.

b) Use of digital payment technology

The use of digital payment technology is a form of empowering MSMEs through digital innovations that aim to simplify transactions and increase efficiency in payments. Digital payment technology involves the use of non-cash payment methods, such as electronic wallets, bank transfers through applications, payments via mobile applications, or payments using credit or debit cards online.

With digital payment technology, MSMEs can provide more flexible payment options for their customers. Customers do not need to carry cash or face physical obstacles in making transactions. They can use electronic wallets or mobile applications to make payments easily and quickly.

The use of digital payment technology also provides advantages for MSMEs in terms of transaction security. Non-cash transactions tend to be safer than using cash, because the risk of theft or loss of physical money can be avoided. In addition, by using digital payment technology, MSMEs can also reduce the risk of receiving counterfeit or invalid money.

In addition to facilitating transactions and increasing security, digital payment technology also provides benefits in terms of recording and tracking transactions. MSMEs can easily track and monitor incoming payments, avoid errors in recording, and automatically generate accurate financial reports. This helps MSMEs in managing finances more efficiently and can provide valuable insights for business decision making.

The use of digital payment technology also contributes to increasing the operational efficiency of MSMEs. The payment process can be done quickly, does not require a long time like cash transactions, and reduces the need for managing physical money. This allows MSMEs to focus on their core business activities and increase overall productivity.

c) Increased online presence through social media

Increasing online presence through social media is a form of empowering MSMEs through digital innovation which involves the active and strategic use of social media platforms to promote their business. Social media has become an integral part of many people's daily lives. People spend a lot of time on platforms like Facebook, Instagram, Twitter and YouTube. Therefore, social media provides an effective channel for MSMEs to expand their reach and increase their visibility among the target market.

By utilizing social media, MSMEs can promote their products and services, share information about special offers, upload product photos or videos, and interact directly with potential and existing customers. Through interesting and creative content, MSMEs can build brand awareness, build relationships with customers, and build a loyal fan community.

The advantage of social media is its ability to provide powerful targeting features, which enable MSMEs to reach relevant audiences with certain demographic profiles, interests or preferences. Thus, MSMEs can convey their messages and promotions to potential customers who are most likely to be interested in their products or services.

Apart from that, social media also allows MSMEs to get direct feedback from their customers. MSMEs can collect reviews, feedback and suggestions from customers through comments, direct messages or polls. This information is invaluable in measuring customer satisfaction, understanding their needs and preferences, and identifying areas for improvement.

Apart from using existing social media platforms, MSMEs can also take advantage of special features offered by social media, such as paid advertisements or direct shopping features on certain platforms. Paid advertising can help MSMEs in increasing the reach of their content and targeting a wider audience. Meanwhile, the direct shopping feature allows customers to buy products directly from social media platforms, making the shopping experience easier and more direct.

By increasing their online presence through social media, MSMEs can harness the power of social networks to build their brand, reach more customers, and achieve success in the world of e-commerce. Social media provides easy, effective, and affordable access to communicate with target markets, build strong relationships, and promote products or services in creative and engaging ways.

5. Conclusion

Based on the description above, it can be concluded that empowering MSMEs through digital innovation has an important role in strengthening the success of e-commerce in Indonesia. Factors that influence the successful implementation of e-commerce in MSMEs include the availability of digital infrastructure, digital knowledge and skills, marketing and branding strategies, and quality of products and services. The form of empowering MSMEs through digital innovation can be done in the form of developing e-commerce platforms, using digital payment technology, increasing online presence through social media. By combining all forms of empowering MSMEs through this digital innovation, MSMEs can take full advantage of the potential of e-commerce. Increasing online presence, building a reliable e-commerce platform, using digital payment technology, and focusing on product and service quality are important steps in driving the growth and sustainability of MSMEs in the digital era. Empowering MSMEs through digital innovation not only benefits the MSMEs themselves, but also contributes to the Indonesian economy as a whole. By increasing the competitiveness of MSMEs in the e-commerce industry, the country can gain sustainable benefits in terms of economic growth, job creation and poverty alleviation. Therefore, it is important for the government, financial institutions and related stakeholders to continue to support the empowerment of MSMEs through digital innovation to ensure the sustainability and success of e-commerce in Indonesia.

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