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# Strategic Digitalization of UMKM Business as an Alternative to Survive the COVID-19 Pandemic

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**Abstract**---The purpose of this study is to implement a business digitalization strategy so that micro, small and medium enterprises (UMKM) can survive the COVID-19 pandemic. This research method is descriptive qualitative based on UMKM survey data from the Katadata Insight Center (KIC) June 2020 in the Jabotabek area. From the results of this study it appears that UMKM business activities carried out with a conventional strategy (Offline System) contributed to a decrease in sales turnover by more than 30%. Meanwhile, UMKM business activities carried out with the strategy of digitalization UMKM (Online System) businesses such as Smart phones (PCs or lap tops) connected to the Internet only amounted to 3.8% of UMKM which experienced an increase in sales turnover. For this reason, it is necessary to build an infrastructure that supports the digitalization of UMKM in terms of online marketing of UMKM products.

**Keywords**---COVID-19, digitalization, strategic, UMKM business.

## Introduction

The problem of the COVID-19 pandemic, which is still on going, continues to spread and spread, especially with the announcement by the British prime minister that a new variant of COVID-19 has been discovered, which spreads faster than the previous virus (Kim & Su, 2020). This can be ascertained if it does not end soon, it will lead to an economic crisis in this country. The existence of this economic crisis will more or less make it difficult for micro, small and medium enterprises (UMKM) to maintain and develop their businesses. In fact, according to records during the 1997-1998 monetary crisis, the position of UMKM played a major role in being the savior of the national economy. At that time,

when many UMKM businesses went bankrupt. In fact, UMKM were able to increase their income up to 350 percent (Putri et al., 2020).

The condition of UMKM before COVID-19 was quite good for almost all business actors. However, when COVID-19 occurred, the situation turned around 56.8% of UMKM were in a bad condition, and only 14.1% of UMKM were still in good condition. The majority of UMKM or as many as 82.9% experienced a negative impact from this pandemic. Only a small percentage or 5.6% of business people actually experienced a positive impact. It is unfortunate that when the COVID-19 pandemic hit this country, it was UMKM that were most affected, namely the impact on the decline in UMKM sales turnover (Katadata Insight Center, 2020).

The purpose of this research is to implement a business digitalization strategy so that the economic activities of these UMKM can survive during the COVID-19 pandemic (Ritter & Pedersen, 2020; Eller et al., 2020). In 2020, research has been carried out on the UMKM business where the majority of UMKM business actors are still using conventional strategies (offline system), which is wrong. One is by reducing the production of goods and services and reducing the number of employees, where this strategy is implemented as an effort to survive in the mid of the COVID-19 pandemic.

## Method

This research method uses a descriptive qualitative approach with an exploratory system and participatory observation in Entrepreneurship (Avdelidou-Fischer, 2013). This research was carried out in the Greater Jakarta area by collecting secondary data from the Katadata Insight Center (KIA) survey, and other sources from the WANTIKNAS and BAPPENAS documents, 2020. The collected data were analyzed using descriptive qualitative methods, namely: (1) Data collection, (2) Data reduction, (3) Data presentation, (4) Data selection, verification, and conclusion, (Bell et al., 2018).

## Discussion

The condition of UMKM before COVID-19 was quite good for almost all business people. However, when COVID-19 occurred, the situation turned around 56.8% of UMKM were in a bad condition, and only 14.1% of UMKM were still in good condition. The majority of UMKM or as many as 82.9% experienced a negative impact from this pandemic. Only a small percentage or 5.6% of business people actually experienced a positive impact (Thaha, 2020). The COVID-19 pandemic has even caused 63.9% of the affected UMKM to experience a decrease in turnover of more than 30%, and only 3.8% of UMKM experienced an increase in sales turnover (Katadata Insight Center, 2020).

The impact of COVID-19 also resulted in most UMKM experiencing difficulties both in terms of financial and non-financial including a decrease in the level of orders, difficulty in distribution, and difficulty in obtaining raw materials which resulted in the affected UMKM having difficulty paying fixed costs and partly having to reduce the number of workers (Covin & Slevin, 1990; Deeds & Hill, 1996). For this reason, the government seeks to accelerate the recovery of the national economy and strengthen people's purchasing power through

strengthening social protection and support for the Micro, Small and Medium Enterprises (UMKM) sector. In addition to equitable access to technology, the need for digital talent for UMKM also absolutely must be met. According to President Jokowi, the current inflation control policy is not only focused on efforts to control prices, but is also directed at the purchasing power of the public and producers, especially UMKM in the food sector.

The results of the Katadata Insight Center (KIC) survey show that UMKM businessmen have made a number of efforts to maintain their business conditions. They carried out a number of efficiency measures such as: (1) reducing the production of goods or services, (2) reducing working hours and the number of employees and sales or marketing channels, and (3) adding marketing channels as part of their survival strategy.

The study of theoretical studies in the context of implementing the digital strategy of UMKM business as an alternative to survive the COVID-19 pandemic can be viewed from the concept approach of relevant research studies from the following research results. Referring to the results of Hardilawati's research, W. Recommends that the survival strategy for UMKM can be carried out through (1) e-commerce trading, (2) digital marketing, (3) improving product quality and adding services, and (4) optimizing marketing relationships with customers ([Laura Hardilawati, 2020](#)).

The results of Khofifah Nur Ihza's research show that the impact of COVID-19 on Ikhwa Comp UMKM is quite high, among others, it can reduce income and decrease people's purchasing power. In addition, this study recommends UMKM survival strategies by trading through E-Commerce, digital marketing, adding services to consumers, as well as optimizing marketing relationships with consumers and maintaining products and also keeping existing customers ([Ihza, 2020](#)). Referring to the results of research by Husni Awali that the implementation of e-commerce sales, digital marketing to improve product and service quality through market place conducted by MSME entrepreneurs is in accordance with procedure other than that e-marketing has a positive impact ([Awali, 2020](#)).

Based on the results of Zanuar Rifai and Meiliana's research, it shows that increasing knowledge about digital marketing strategies has an effect on UMKM business players to be able to implement digital marketing strategies effectively ([Rifai & Meiliana, 2020](#)). Referring to the research results of Wijoyo and Widiyanti, it appears that the era of the industrial revolution and Society 5.0 digital marketing strategy plays a very important role in building communication networks with consumers and introducing company products and services. The digital media that are commonly accessed in the implementation of digital marketing strategies are Websites, blogs and also social media (Facebook, Instagram, Whatsapp, Line, etc.), SEO, SEM, Email Marketing, branding, Content Marketing and Application Development ([Wijoyo & Widiyanti, 2020](#)).

This will certainly be a very big challenge for UMKM actors to be able to survive by doing business in accordance with the current COVID-19 pandemic era. Thus, it is time to implement a business digitization strategy as an alternative in

maintaining the UMKM business in the era of the COVID-19 pandemic as an expansion effort which is a solution to maintain the running of UMKM business operations (McDougall, 1989).

The digitalization of UMKM that switch to online sales patterns through the marketplace is an alternative in solving problems for micro, small and medium enterprises (UMKM) to survive in order to stay alive and help the Indonesian economy in the current COVID-19 pandemic era (Cenamor et al., 2017; Sestino et al., 2020). In addition, the majority of UMKM in Indonesia have micro-scale businesses with annual turnover below Rp. 300 million. These UMKM business actors take advantage of the surrounding environment to market their products, but 78.6% of UMKM have started trying to sell online, for example, such as offering bank credit cards through telemarketing (Ibrahim, 2012).

Based on the results of a Bappenas survey through the study of policies to overcome the impact of COVID-19 on UMKM, there are five main UMKM sectors, it appears that assistance in increasing digital human resources and internet infrastructure is needed by UMKM to survive during the COVID-19 pandemic, as shown in the following table.

Table 1  
Digital HR and internet infrastructure

| Sector  | Digital capability<br>HR Assistance | Internet infrastructure<br>assistance |
|---|-------------------------------------|---------------------------------------|
| Agriculture, Fishery and<br>Plantation                                  | 5.91 %                              | 5.23 %                                |
| Industrial Treatment  | 11.05 %                             | 9.51 %                                |
| Whole Seller and Retail,<br>Repare, Maintenance, car and<br>Motor Cycle | 11.99 %                             | 11.18 %                               |
| Inventory Accomodation,<br>Inventory of meal, and drink                 | 10.92 %                             | 12.38 %                               |
| Transportation, Warehousing<br>and other Services                       | 18.86 %                             | 16.37 %                               |

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Resources: Bappenas – Aptika Kominfo

Referring to the survey results of the Digital Assistance and Infrastructure data table above, it is necessary to encourage the development of adequate ICT infrastructure throughout Indonesia. This is done to support the digitization of UMKM, especially in terms of marketing UMKM products online (Ismail, 2012).

The COVID-19 pandemic has had economic, social and political implications in Indonesia, especially on the economic aspects of the affected UMKM (COVID-19 dan Implikasi bagi Usaha Mikro, Kecil, dan Menengah, 2020). The implementation of the business digitalization strategy for UMKM is an effective

alternative strategy to survive the current COVID-19 pandemic. This is very important because UMKM have a large and crucial contribution, which covers 99% of the number of business units in Indonesia. In addition, UMKM also contribute 97% of employment by 60% of the national GDP, as well as 58% of total investment and 14% of total exports. Therefore, UMKM need to be facilitated to be able to take advantage of digital platforms to develop marketing channels, and accelerate various existing government supports (Shcherbyna et al., 2021). In addition, the use of digital technology such as smart phones (PCs/laptops) connected to the internet can encourage the development of UMKM as part of economic transformation and strengthening the economy of the lowest community groups to be more productive and generate high added value.

## Conclusion

UMKM business activities that implemented conventional strategies (Offline System) during the COVID-19 pandemic contributed that 63.9% of the affected UMKM experienced a decrease in sales turnover of more than 30%. UMKM business activities that implemented a digitalization strategy (Online System) during the COVID-19 pandemic contributed that only 3.8% of UMKM experienced an increase in sales turnover. Referring to the results of the research, it is necessary to improve the development of adequate ICT infrastructure throughout Indonesia, this is sought to support the digitalization of UMKM, especially in terms of marketing UMKM products online (Hendriarto, 2021).

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