



Business Digitalization and Its Impact on MSME Revenue in the Digital Economy Era

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Abstract

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The advancement of digital technology has significantly transformed the business landscape for Micro, Small, and Medium Enterprises (MSMEs), enabling broader market access and increased revenue potential. This study explores how business digitalization—particularly through social media and e-commerce platforms—contributes to income growth among MSMEs. Grounded in the Solow Growth Model, digital transformation is seen as a catalyst for productivity and operational efficiency. Findings reveal that MSMEs benefit from reduced operational costs, more effective marketing, real-time customer interaction through live streaming, and increased online sales. The Shopee platform, for instance, has demonstrated a notable rise in product transactions via its live shopping feature. Despite these benefits, MSMEs face challenges such as low digital literacy and heightened competition, which demand continuous innovation and adaptation. The study emphasizes the need for supportive digital literacy programs and strategic integration into the digital ecosystem to ensure MSME sustainability in a rapidly evolving economy.

Keywords: Digitalization, MSMEs, E-Commerce, Live Streamin

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INTRODUCTION

The trend of digital economy has emerged across various parts of the world, including Indonesia, and has had a significant impact on the national economy. Many experts believe that the digital economy brings substantial benefits to a country's economic development, ranging from transaction activities to investment in the digital industry. Indonesia's Minister of Finance, Sri Mulyani Indrawati, stated that the digital economy is one of the key drivers of the country's rapid economic growth. In 2021, the value of Indonesia's digital economy reached USD 70 billion and is projected to increase to USD 145 billion by 2025. Furthermore, the digital economy is no longer limited to startups or e-commerce businesses; it also includes previously well-established entities transitioning from conventional to digital operations (KementerianKeuangan, 2022).

The growth of the digital economy significantly accelerated during the COVID-19 pandemic. The global economy adapted through digitalization, shifting public behavior and perspectives in economic and social interactions. Countries worldwide began transitioning to digital systems to respond to unpredictable conditions, requiring all economic

activities—ranging from large enterprises to micro-businesses and small vendors—to adapt accordingly. This transformation is reflected in the proliferation of digital platforms that facilitate business transactions, including online shopping and digital payment systems.

The digital economy plays a crucial role in opening new business opportunities. The shift to digital or online operations—commonly referred to as business digitalization—has driven increased demand for e-commerce services (Banga, 2020). This shift has substantially lowered the barriers and costs associated with market access, resulting in higher sales and export opportunities. Additionally, business digitalization enhances payment systems, enabling more convenient and secure transactions.

Indonesia has promising potential in facing the free market and embracing business digitalization, particularly due to its demographic advantages. With a rapidly growing population—reaching 264 million and making it the largest in Southeast Asia—Indonesia also sees a rising number of internet users. Factors such as urban population distribution, educational background, lifestyle, and professional diversity further support this potential.

The rapid development of digital technology in Indonesia in recent years has created new opportunities for industries, especially for the creative and digital sectors. Creative industries with strong unique selling points are well-positioned to grow rapidly and contribute significantly to national economic development. It is not surprising that many stakeholders are now expanding and investing in Indonesia's digital industry.

Micro, Small, and Medium Enterprises (MSMEs) have made a significant contribution to Indonesia's economic growth. Enhancing their role in national development must continue to be a priority, as MSMEs are vital for job creation and GDP growth. As a major pillar of the economy, MSMEs must be empowered to promote high-quality economic growth and serve as a solution to economic disparity.

In the current era of Industry 4.0, MSMEs are expected to improve their competitiveness through digital platforms. The advancement of global digital technology has created a rapidly evolving digital economy, where almost all economic activities can be managed remotely via the internet and smart devices. This transformation extends to economic transactions, including the use of emails, websites, online product management applications, and e-commerce platforms.

In today's modern era, purchasing goods has become more convenient than ever. With advanced technology, people no longer need to engage in traditional shopping. Most internet users are now familiar with online buying and selling activities. Amid the sluggish global economy, MSMEs must respond to current challenges. Those that are able to maintain or increase their income are the ones that successfully adapt. One of the key strategies to boost product sales is to attract customers through effective marketing strategies that align with modern trends and embrace business digitalization (Setyorini, 2019).

One of the most prominent examples of business digitalization in Indonesia is the use of social media for online transactions. MSME players promote their products via internet-based platforms that serve as effective communication tools for reaching a wide audience. Social media has become a popular and powerful channel for product marketing. For instance, Facebook groups like "Makassar Dagang" serve as platforms where MSME players can promote their products, particularly in sectors such as food, fashion, and more.

The increasingly fierce competition among MSMEs in the digital space is a direct result of ongoing technological advancements. Therefore, MSMEs must pay close attention to this phenomenon and master digital marketing. Limitations in entrepreneurship and low levels of technology utilization hinder MSMEs from advancing their businesses, ultimately affecting their income generation (Rusanti, 2014).

The advancement of technology offers great convenience for MSME players in managing their businesses. Therefore, equipping workers with the necessary digital skills is essential to effectively leverage available technologies for income generation.

Revenue is one of the most critical components of a business, as it determines the company's financial performance and sustainability. Without sufficient revenue, it is impossible for a business to generate profit. Hence, businesses must make the best use of their available resources to achieve their income targets. Several factors influence business revenue, including the entrepreneur's motivation, capital, profit margins, time, environment, labor, education, technology, and business experience (Kasmir, 2006).

METHOD

This study employs a qualitative research method with a descriptive analytical approach, in which the collected data consists of words and images rather than numerical data. Qualitative research is defined as a research procedure that produces descriptive data in the form of written or spoken words from individuals and observable behavior (Moleong, 2012). The method used in this study is library research. This involves systematically searching for and collecting relevant information and data from various literature-based sources such as books, scholarly journals, conference proceedings, articles, and online news that support the development of this research.

RESULT AND DISCUSSION

Result

The digital economy refers to economic activities that utilize digital technology, marking the transition from conventional to digital business models. Advances in digital technology have created new business opportunities for msme, making creativity and innovation essential in implementing business digitalization. This transformation has had a significant impact on the development of msme in indonesia.

Based on the author's investigation, the following data illustrates the growth of business digitalization and its impact on msme actors:

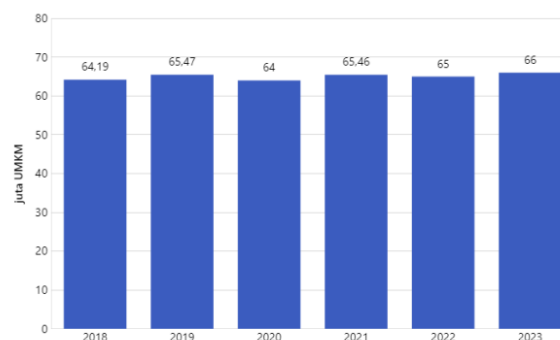


Figure 4.1 Total Number of MSMEs in Indonesia

Source: Indonesian Chamber of Commerce and Industry (KADIN)

The number of MSMEs in Indonesia continues to grow. The government supports improved national MSME performance by implementing digitalization strategies to enhance competitiveness, expand into global markets, and promote exports. According to data compiled by the Indonesian Chamber of Commerce and Industry (KADIN), as of 2022, approximately 20.76 million MSMEs had entered the digital ecosystem. This number was targeted to rise to 24 million in 2023 and 30 million by 2024.

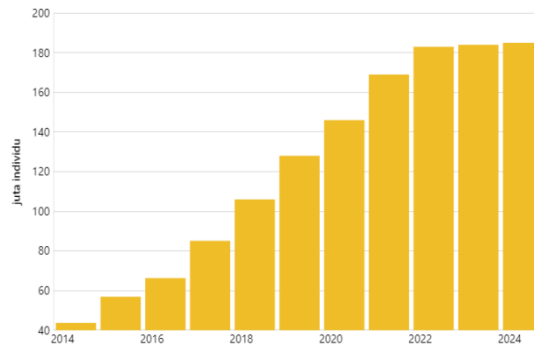


Figure 4.2 Number of Internet Users in Indonesia

Source: Databoks

According to a survey conducted by We Are Social in January 2024, there were 185 million internet users in Indonesia, equivalent to 66.5% of the total population of 278.7 million. This presents both an opportunity and a challenge for business actors to compete, expand market reach, and increase revenue through business digitalization.

Proporsi Responden UMKM Berdasarkan Tempat Berjualan Utama (Desember 2023)

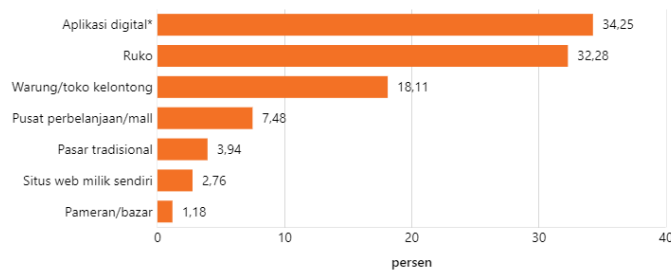


Figure 4.3 Most Preferred Selling Platforms by MSMEs

Source: INDEF

The data shows that many MSMEs prefer selling through digital platforms. This indicates that digital applications such as social media and e-commerce play a significant role in supporting micro, small, and medium enterprises. According to a survey conducted by the Institute for Development of Economics and Finance (INDEF), 33.86% of MSME respondents who initially sold only offline have now expanded their business online. Furthermore, 61.02% have utilized both offline and online promotional channels since the early stages of their business, while 5.12% rely solely on digital platforms for sales.

The reasons behind MSMEs adopting digitalization include the practicality of online selling (79.13%), broader exposure and traffic (72.83%), and faster business growth potential (69.69%). Additionally, INDEF found that the majority of MSMEs involved in the survey primarily use digital platforms such as social media and e-commerce as their main sales channels (34.25%). However, a considerable number of MSMEs still prefer offline sales, particularly through retail shops (32.28%) and convenience stores (18.11%). Meanwhile, respondents who prioritize sales at shopping malls, traditional markets, personal websites, or trade fairs make up a smaller proportion, as illustrated in the chart.

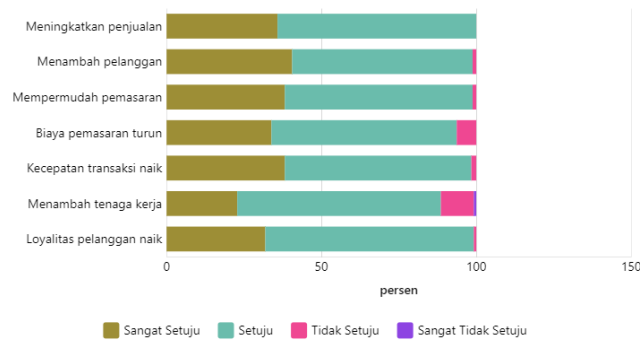


Figure 4.4 Impact of Digital Platforms on MSMEs

Source: INDEF

INDEF conducted a survey involving 254 MSME samples across Jabodetabek (30%), other regions in Java (50%), and areas outside Java (20%). The results revealed that 100% of MSME respondents agreed that using digital platforms helps increase sales—64.17% agreed, and 35.83% strongly agreed. Most MSMEs also believe that business digitalization increases customer numbers, simplifies marketing processes, and reduces marketing costs. Many also agreed that digital platforms speed up transactions, create job opportunities, and strengthen customer loyalty. On the other hand, the percentage of respondents who disagreed or did not perceive any positive impact was minimal, as reflected in the chart.

DISCUSSION

The Role of Business Digitalization in Increasing MSME Revenue

The advancement of digital technology has created new business opportunities for Micro, Small, and Medium Enterprises (MSMEs). One of the most notable impacts is the ease of transactions facilitated by digital applications, such as social media and e-commerce platforms. Many MSMEs that initially operated only offline have now adopted business digitalization. This shift aligns with the Solow Growth Model, which posits that sustainable income growth stems from technological advancements that enhance buying and selling processes, thus increasing productivity. In other words, the digital economy presents significant opportunities for income growth by making economic activities more practical, convenient, and efficient.

According to a survey conducted by the Institute for Development of Economics and Finance (INDEF), the implementation of digitalization has yielded several positive impacts for MSMEs, including: **Reduction in Operational Costs:** The digital economy offers MSMEs the opportunity to reduce operational expenses, such as high rental costs for physical stores, by adopting online business models. Businesses can be managed virtually with significantly lower overhead. **Effective Marketing and Promotion:** Social media provides a powerful tool for MSMEs to market and promote their products. It enables the development of digital branding, customer engagement, and the expansion of networks. Digital platforms also facilitate transactions with consumers without face-to-face interactions—ranging from product selection, video demonstrations, customer testimonials, to payment via digital wallets or cash-on-delivery (COD) features. This greatly expands market access both nationally and internationally.

The positive effects of digitalization have also been felt by MSMEs. Through Shopee's live streaming feature, sales have increased significantly. A recent survey revealed that Shopee recorded a threefold increase in buyers and products sold via Live Streaming Shopping compared to the previous year. This growth is attributed to the engaging nature of live streaming, which allows real-time interaction between sellers and buyers. Moreover, it provides a unique shopping experience by combining entertainment with convenience.

Live streaming has not only become the most memorable shopping channel for consumers but also the most frequently used. Consumers cited several reasons for this,

including free shipping, special promotions, larger cashback offers, lower prices, and various discounts.

MSMEs that use social media solely for promotion and collaborate with online ride-hailing services have also experienced sales growth. Social media promotions attract broader public attention, while online delivery services facilitate order fulfillment. This model benefits customers who prefer to shop without leaving their homes. However, one drawback is the absence of special promotions, and delivery costs may vary based on distance.

Challenges in the Implementation of the Digital Economy for MSMEs

To enhance the competitiveness of MSMEs, the government has launched a digitalization program targeting 30 million MSMEs to join the digital ecosystem by 2024. Although the target is ambitious, the program is vital for improving the national economic structure, which is predominantly driven by this sector. Digitalization is a crucial driver of economic recovery, especially considering that the pandemic severely restricted the movement of goods and people, leading to a decline in demand for products and services.

Several challenges must be addressed to integrate MSMEs into the digital ecosystem: **Low Levels of Digital Literacy:** One of the main obstacles is the relatively low level of digital literacy among MSME actors in Indonesia. Increasing digital knowledge and skills is a key priority for the government. **Market Competition:** In the digital era, MSMEs face intense competition, requiring them to innovate and offer superior services to remain relevant in the local market and compete globally. MSME actors must enhance their ability to think creatively and innovatively to generate compelling ideas. When combined with available digital technologies, this capability can empower MSMEs to compete effectively.

Failure to embrace innovation and digital adoption can hinder MSME growth, as competitors who adapt more readily to digital economic demands will outperform them. Therefore, MSME entities must study relevant literature and leverage technology to keep pace with rapid digital advancements.

CONCLUSION

Contains a conclusion with a broad generalization of the discussion of research results that is written briefly and clearly, showing clarity of the contribution of the findings, the creation of new theories and the possibility of developing research that can be done in the future. Theoretical and practical implications, limitations and research suggestions are also written in flowing paragraphs. The transformation of business digitalization has accelerated significantly during the COVID-19 pandemic. Advancements in digital technology have opened new business opportunities for Micro, Small, and Medium Enterprises (MSMEs). One of the most prominent shifts in digital business practices in Indonesia is the widespread use of social media and e-commerce platforms. Many MSME actors who previously relied solely on offline sales have now adopted digital business strategies.

The implementation of business digitalization has brought several positive impacts to MSMEs. First, it contributes to the reduction of operational costs, as the digital economy allows businesses to minimize expenses such as rent and utilities by transitioning to online platforms. Second, marketing and promotional activities have become more efficient and effective. Through social media, MSMEs can engage directly with customers, promote their products, and build digital brand recognition. Additionally, digital platforms facilitate seamless transactions between sellers and consumers without the need for physical interaction. All transaction processes—product selection, authenticity verification through video, customer testimonials, and payment—can now be conducted online using digital wallets or even cash-on-delivery (COD) features.

These developments lead to broader market **access**, allowing MSMEs to reach consumers on both national and international scales. Ultimately, the positive impacts of digitalization contribute to increased sales and revenue growth for MSME actors.

These benefits are also evident among MSMEs. Through Shopee's live streaming feature, MSMEs have reported a rise in sales. This is attributed to the interactive nature of live streaming, which fosters real-time communication between sellers and buyers.

Moreover, live streaming enhances the customer shopping experience and is accompanied by various attractive offers such as free shipping, special promotions, higher cashback, lower prices, and numerous discounts.

However, digitalization also presents new challenges for MSMEs. One of the primary obstacles is the lack of digital skills among workers. Many MSMEs struggle to recruit employees with adequate digital competencies. Other challenges include high platform service fees, intensified market competition, and the influence of consumer opinions in digital spaces, which can significantly affect a business's reputation.

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