

## The Effect of Digital Transformation on The Business Strategy of SMEs in The City of Bandung

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### ABSTRACT

*Changes are driven by technological developments in organizations and work environments. Business competition today is very strict, and it must be able to meet the needs and desires of consumers. One of the best efforts is to follow up with technological change or transform into digital by using digital technology in a business strategy. The aim of this research is to understand the impact of digital transformation and the use of technology on UMKM's business strategy. This research is a type of descriptive qualitative research; data collection is carried out through interviews with UMKM perpetrators in the city of Bandung who use social media for both operational activities and sales and marketing. Interviews are conducted through WhatsApp and Instagram. The results obtained from this research are that digital transformation affects the business strategy of UMKM in Bandung; the presence of digital transformation makes UMKM actors use the strategy by creating content that is consistently interesting, not doing hard selling, understanding fan marketing, and leveraging the existence of influencers or celebrities.*

*Keywords: business strategy, digital business, digital transformation*

### INTRODUCTION

Currently, many changes are happening, especially in the field of digital technology. Changes that arise as a result of technological advances in organizations and the environment are the cause of digital transformation (Widnyani

et al., 2021). Changes in companies include changes between employees and companies, companies with customers, companies with other companies, and changes in the market related to adjustments to ongoing business processes (Rasid & Rizal, 2021).

Digital transformation is a phrase used to describe changes in organizations affected by

technology. (Rasid & Rizal, 2021) These changes relate to technological advances in the organizational context and business environment. Entrepreneurs design and utilize innovative technologies and business models due to digital transformation to gain a competitive advantage. (Banjarnahor, Hariningsih, Mathory, Yusditar, Fuadi, Muliana & Watrianthos, 2022)

The development of information technology and the internet has reached the business sector; the benefit that entrepreneurs can take is to disseminate their business products or services widely by using the internet. (Hasan, et al., 2021) Business activities carried out by entrepreneurs before the emergence of the internet, namely traditionally, the emergence of the internet made trading online; only a cellphone was needed to make buying and selling transactions (Syikin, 2021). In addition, internet use in society has increased significantly, resulting in changes in society and digital marketing growth. (Hasan, et al., 2021) Entrepreneurs or businesspeople can use this in marketing their products and services.

Market dynamics in the current era of globalization are tight, and each organization needs to identify and understand consumer needs to develop products with advantages that differentiate them from competitors and produce new product innovations that can differentiate products from competitors. Therefore, various product development efforts can continue to be carried out by companies to become an effective

strategy by offering innovative products to buyers who choose products that suit their needs and wants and companies trying to gain profits through product sales and maintaining a good image in buyers' eyes.

Strategy is a tool to achieve goals. The main objective is that the company can objectively observe internal and external conditions so that the company is able to predict changes in the external environment to achieve the desired goals and outperform the competition with competitors. (David & Rangkuti, 2014)

In the current era, MSME actors should be able to take advantage of digital media to develop the business they run. The easy access to the internet today, the number of benefits obtained, and the low costs required are the main reasons for MSMEs before they finally choose digital media as the right solution to expand their business reach. (Wardana, 2018)

In Indonesia, the interpretation of MSMEs is regulated by Law No.20 of 2008 concerning MSMEs. Article 1 of the law states that micro-enterprises are productive businesses owned by individuals and single business entities that meet the criteria for micro-enterprises stipulated in the law. A small business is a single economic business that is managed by an individual or business unit that is not an affiliated company or not a subsidiary of a company that is owned, controlled, or becomes part, directly or indirectly, of a medium-sized business or a large business

that meets the criteria for small businesses such as recorded in the law.

MSMEs with digital access, engaging in social media, and developing their e-commerce capabilities will usually enjoy significant business benefits in income, employment opportunities, innovation, and competitiveness. (Wardhana, 2018).

Based on the background description above, this study aims to determine the effect of digital transformation and the use of technology on MSME business strategies.

## METHOD

The method used is the descriptive qualitative research method. The qualitative method explores and makes sense of social or humanitarian problems. (Nugrahani & Hum, 2014) The target of the research is MSME actors in Bandung who use digital technology in their business operations. The primary data in this study comes from interviews with informants who are SMEs in the city of Bandung. Meanwhile, secondary data was obtained using journals, articles, and books relevant to the research topic.

Research informants are research subjects who know and understand research problems and can provide the necessary information (Sarita & Suprianto, 2022). The informant also gives feedback on research data (Sarita & Suprianto, 2022). To the research objectives on the effect of

digital transformation on MSME business strategies in Bandung, the informants of this study are:

1. Owner of UMKM Pipinos Bakery, which focuses on the culinary industry, especially cake production.
2. The owner of UMKM Caketronomy is engaged in the culinary industry specializing in cake making.
3. Wholesale MSME owners who operate in the manufacturing industry with an emphasis on the production and sale of bags.
4. Cardidan MSME owners engaged in textile manufacturing, especially outerwear.
5. The UMKM Rujak Ambu Seasoning owner focuses on the culinary industry, especially in making a traditional instant salad.
6. Owner of Hanania Label, which operates in the fashion industry specializing in making headscarves.

Data collection techniques in this study were carried out by observation and interviews. The main feature of qualitative research is to conduct observations and interviews as data collection. Interviews were conducted online via the WhatsApp and Instagram applications. (Nugrahani & Hum, 2014)

## RESULT and DISCUSSION

### MSME operational activities

Pipinos is an MSME engaged in the food sector, with bakery, pasta, and hampers products. Pipinos has been running for five years since 2018 in the Ciumbuleuit area, Bandung. Currently, Pipinos' marketing is done not only offline but also online using social media.

Caketronomy is an MSME engaged in the food sector, especially cake products, such as birthday cakes and others. The gastronomy business starts on June 7, 2021, with original homemade cakes or home businesses. The promotion carried out at the start of the business was by promoting friends to friends; now, the reach is broader because it uses social media.

Wholesale Bags is an MSME that, as the name implies, sells various kinds of bag products. This business has been running for three years. The beginning of starting a promotion business was done using a word-of-mouth strategy in the school environment. However, now it has taken advantage of social media and E-Commerce Platforms using a viral marketing strategy for easier transactions and a wider reach.

Cardigan is an MSME engaged in the fashion sector that focuses on selling outerwear such as kimonos and cardigans. This business has been running since late 2021. At first, the product was made according to a request or request from a close colleague because the owner's background is a Fashion Design student. However, now he is using social media for more comprehensive promotion.

Bumbu Rujak Ambu is an MSME engaged in the food sector to sell instant traditional rujak seasonings. The Rujak Ambu Seasoning business has been running for about nine years since late 2013 and received its complete permits in 2014. This MSME runs its business offline and online through several e-commerce applications

Hanania Label is an MSME in the fashion sector, specifically selling headscarves. This business has been running for five years; Hanania Label started its business through social media, namely Whatsapp only, and offered its products to the closest neighbors around the house. Hanania Label already uses several e-commerce applications to support product sales.

#### **Media and technology used**

Pipinos use various social media to keep up with the times: Instagram, TikTok, Gofood, Grabfood, Shopee Food, and Tokopedia. Pipinos Instagram currently has 5,489 followers; with this number of followers, Pipinos can reach a wider audience. Pipinos uses a laptop for its operational activities. The software includes Ms. Excel for the finance section, Google Docs used for sharing data, and Adobe is used for editing photos and content. The software helps pipinos' operational activities be faster and more effective.

Unlike Pipinos, Caketronomy only uses Instagram, with 6,673 followers, as its marketing medium. Caketronomy sees its target market as ourselves, and product delivery can be done using go-send or its courier.

Wholesale Bags utilize the e-commerce platforms Shopee, Lazada, and Tiktok. At Shopee itself, around 49,600 followers have been followed. Meanwhile, Cardigan uses social media Instagram and Tiktok Shop for promotion and marketing.

Bumbu Rujak Ambu markets its products through Instagram, Facebook, Tiktok, Whatsapp, Shopee, Tokopedia, and LummoSHOP applications. This UMKM already has 1,386 followers on Instagram, and this business always provides updates regarding its products to consumers. The technology used is a laptop to manage sales transaction data. The application is Si Apik for financial records and Selly for transaction billing recap.

Hanania Label markets its products through the Instagram, Tiktok, Shopee, and Tokopedia applications. This MSME already has 6,561 followers on Instagram, often sharing photos of their latest products. The technology used is the same as the previous one: using a laptop to manage sales transaction data records.

Social media that is used and utilized by MSMEs is social media that is also widely used by the community. Like Instagram, based on data from Napoleon Cat (Rizaty, 2023), there are 106.72 million Instagram users in Indonesia. Social media Tiktok noted that in Indonesia, Tiktok is used by 109.90 million users (Sadya, 2023). The same goes for the food, superfood, and grab food platforms that are widely used

because they make it easier for users to buy a product.

### **Effect of using social media and e-commerce platforms on Sales**

According to Pipinos, using social media for marketing is very helpful. However, it could be more helpful for sales due to the high cost of online commissions on the platform used. In line with Caktronomy, using social media as a promotional medium makes the customer reach wider so that more and more people know about Caketronomy's existence.

As with Wholesale Bags, social media dramatically influences market reach and transactions and is more effective even though high taxes and competition among online sellers accompany it.

According to Cardidan himself, the use of social media has quite a significant influence because digitalization is now starting to be developed, many people are starting to switch to E-commerce, and the use of social media can increase product promotion insights because it is promoted on Instagram so more people know about it.

Social media use has impacted Bumbu Rujak Ambu, which is enough to help increase sales, product promotion is more accessible and cheaper, especially during a pandemic, and it can reach a broader market.

For Hanania Label, using social media and e-commerce is very influential because it can reach

customers from various regions in Indonesia; plus, there is a testimonial and rating system from customers that can increase trust for other prospective customers to shop at Hanania Label.

### **Advantages and disadvantages of using digital technology**

After using digital technology, Pipinos feels the advantage of reaching the market and making it easier to communicate ideas and suggestions. After using social media, the awareness of potential customers is increasing. However, there are still disadvantages, namely, the reviews given by customers are more biased and very subjective, which sometimes harms the seller; bias can also occur due to paid reviews by influencers.

According to Wholesale Bags, the advantages gained after utilizing digital technology are that the market reach becomes wider, transactions are more accessible, report data is neatly recorded, and more effective. However, it has disadvantages such as taxes which are getting bigger every year, which can reduce profits and price competition from competitors on each platform. It is the same with Cardidan. The perceived advantage is that more people know about Cardidan's products, it is easier to communicate with buyers, and sales have increased. However, as for the downside, there are several products on social media whose concept is almost the same, so competition occurs.

The advantage felt by MSMEs Bumbu Rujak Ambu is that it makes it easier to promote their products and it makes it easier to manage financial transactions. In contrast, the disadvantages are felt, namely that there are consumers who give a small rating that can influence other people's trust to buy. Likewise, Hanania Label's MSMEs feel the benefits when using digital technology, namely making it easier to reach customers, besides that there are challenges faced by Hanania Label, namely the development of social media is very fast so that sellers do not keep updating regarding the latest developments or trends that will affect sales.

### **Strategy applied**

Pipinos now understands more about marketing funnels and marketing strategies focused on digital platforms. The marketing funnel concept describes the journey of a user or customer from the beginning who is not familiar with the brand, then gets to know, consider, make a purchase, evaluate, and ultimately become a loyal customer. (Dinandra, 2020) It is the same as what Pipinos has implemented, namely, not implementing hard selling but creating exciting content first to create awareness for potential customers so that they are interested in making purchases and making transactions.

In line with Caketronomy, the strategy implemented using social media is to consistently create content on Instagram, both in Instagram posts or stories, so that potential buyers know

whether Caketronomy is open and find out other information.

Wholesale Bags implements a viral marketing strategy by always keeping an eye on trend developments and consistently creating exciting content so it can spread faster in a short time. Meanwhile, Cardidan is currently implementing a strategy to intensify promotions by asking for help from several influencers and closest colleagues to promote the product to make the product more widely known.

UMKM Bumbu Rujak Ambu applies a strategy when selling offline by increasing the number of testers for consumers to attract the attention of consumers and sell their products through bazaars and exhibitions. For now, this business is implementing a strategy through social media by creating video projects and product photos for promotion and product endorsement to celeb grams. Furthermore, the strategy implemented by Hanania Label is through social media, where the owner diligently uploads the content of his products to increase engagement with his followers and, in the future, plans to try product endorsements on celeb grams.

## CONCLUSION

Based on the results of the study, it can be concluded that: 1) Besides being carried out offline, MSME operational activities are also carried out online, 2) MSMEs currently use a lot

of social media technology, including for marketing and sales using Instagram, TikTok, Shopee, Lazada, Tokopedia, and others, in addition, using MS. Excel, Adobe, and Google Docs to assist in carrying out various things. 3) Social media has quite influenced the marketing carried out by MSMEs; using social media, the reach can be more comprehensive, and product insights are increasing, but there are still deficiencies caused by online platform commission fees and e-commerce and 4) The strategy applied to MSMEs today is to create exciting and consistent content, not to do hard selling, and to use influencers and colleagues to promote products on social media. Suggestions that can be given are 1) MSME actors should try to utilize social media and other technologies to support their operational activities, and 2) MSME actors should try a more varied strategy in utilizing social media and e-commerce platforms.

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