



The impact of e-commerce on the growth of MSMEs in Indonesia

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Abstract. This study seeks to investigate the influence of e-commerce on the growth of micro, small, and medium-sized enterprises (MSMEs) in Indonesia. The rapid expansion of e-commerce in recent years has significantly contributed to the increase in revenue and market reach of MSMEs, enabling them to compete in a broader marketplace. The shift in consumer behavior from traditional brick-and-mortar shopping to online shopping is an inevitable trend, largely driven by the increasing accessibility of digital platforms and technological advancements. The adoption of e-commerce has allowed MSMEs to reduce operational costs, enhance customer engagement, and improve business efficiency through digital transactions and marketing strategies.

Employing a qualitative research methodology, this study aims to comprehend and describe the effects of e-commerce on the development of Indonesian MSMEs. This approach enables a deeper understanding of the challenges and opportunities faced by MSMEs in adapting to digital commerce. According to data from Indonesia's Central Statistics Agency (BPS), instant messaging is the most prevalent channel for e-commerce activities, followed by marketplaces, social media, websites, and email. These digital platforms provide MSMEs with various opportunities to expand their customer base and optimize their sales strategies. The findings of this study are expected to contribute to a more comprehensive understanding of the impact of e-commerce on MSMEs in Indonesia, offering valuable insights for policymakers, business owners, and other stakeholders in the digital economy.

Keywords: MSMEs, e-Commerce, Marketplaces

1 Introduction

Micro, small, and medium-sized enterprises (MSMEs) constitute the backbone of Indonesia's economy, contributing a substantial 61.9% to the country's gross domestic product (GDP) in 2019, as reported by the Ministry of Cooperatives and Small and Medium Enterprises. Of this total, micro enterprises account for 37.4%, small enterprises for 9.5%, and medium enterprises for 13.6%. Moreover, the Ministry highlights that a vast majority, approximately 99%, of Indonesian businesses operate at the MSME level. Despite their significant contribution to Indonesia's GDP, the growth of micro, small, and medium-sized enterprises (MSMEs) was historically

constrained by traditional offline marketing practices. However, the advent of the digital era has ushered in a transformative shift in the business landscape, empowering MSMEs with a diverse range of tools and platforms to market their products and services.

The Indonesian e-commerce landscape has witnessed substantial growth in recent years, driven by the rising penetration of the internet and smartphones. As a result, Indonesian consumers have increasingly embraced online shopping. E-commerce empowers businesses to sell products and services online, expanding their market reach through the digital realm. The burgeoning growth of e-commerce and the encouragement of online ventures have attracted interest from business actors across various sectors, including micro, small, and medium-sized enterprises (MSMEs). However, e-commerce also presents a range of challenges and risks, such as data security breaches, fraud, and intense competition.

E-commerce has emerged as a pivotal catalyst for the growth of micro, small, and medium-sized enterprises (MSMEs) in Indonesia. By harnessing digital platforms, MSMEs can expand their market reach, enhance visibility, reduce operational costs, improve efficiency, and foster innovation. In essence, e-commerce presents a wealth of opportunities for MSMEs to flourish. However, a solid understanding of e-commerce is essential for MSMEs to maximize their potential and contribute significantly to the Indonesian economy.

To bolster the development of the digital economy and ensure the availability of timely, accessible, and accurate data and information, the Indonesian government has implemented several regulations pertaining to e-commerce. These include the 14th Economic Policy Package regulating the electronic-based economy, Presidential Regulation No. 74 of 2017 concerning the Roadmap for the National Electronic Trade System (SPNBE), Government Regulation No. 80 of 2019 concerning Electronic Transactions (PMSE), and Ministerial Regulation of Trade No. 50 of 2020 concerning Business Licensing, Advertising, Guidance, and Supervision of Business Actors in Electronic Transactions. The implementation of these regulations is expected to facilitate the collection of more comprehensive e-commerce data, enabling the government to gain a deeper understanding of the Indonesian e-commerce landscape. Data-driven policymaking and decision-making will empower the government to make informed choices regarding the future of the e-commerce industry. This study aims to provide a comprehensive overview and analysis of the impact of e-commerce on Indonesian MSMEs, as well as to identify the key factors influencing their success in the e-commerce domain.

2 Research Methods

This research employs a qualitative methodology, a research approach designed to delve into the meanings and experiences of research subjects. In this method, data is

collected in a descriptive format, often consisting of words rather than numerical values. Qualitative research prioritizes the process over the end result, aiming to provide a comprehensive understanding of a social or cultural phenomenon.. The researcher conducted a literature review, involving a textual analysis of written sources such as journals, books, reports, and online articles. This literature review offers a comprehensive overview of the development of e-commerce in Indonesia, its impact on micro, small, and medium-sized 4 enterprises (MSMEs), and the factors influencing the success of MSMEs in the e-commerce domain.

3 Results

The burgeoning growth of e-commerce in Indonesia is driven by several key factors, including the expanding population, widespread adoption of smartphones and the internet, the popularity of social media, and advancements in financial technology. For micro, small, and medium-sized enterprises (MSMEs), e-commerce has had a particularly transformative impact, enhancing their competitiveness, boosting sales, expanding market reach, facilitating marketing and promotion, accelerating order fulfillment, and stimulating production.

While precise data on the percentage of MSMEs' revenue derived from e-commerce compared to their overall revenue is currently unavailable, the Central Statistics Agency (BPS) reports a significant increase in e-commerce revenue from Rp 401 trillion in 2021 to Rp 476 trillion in 2022, representing an 18% growth. In 2022, the majority of e-commerce businesses in Indonesia (82.97%) generated annual revenue below Rp300 million, with smaller proportions earning between Rp300 million and Rp2.5 billion (14.40%), Rp2.5 billion and Rp50 billion (2.42%), and over Rp50 billion (0.21%).

The evolution of information technology has given rise to a diverse range of online sales channels. Marketplaces serve as platforms connecting buyers and sellers, while businesses can also establish their own e-commerce websites. Additionally, social media and instant messaging have emerged as popular online sales platforms for many businesses.

Despite the benefits, the BPS's 2022 e-commerce survey revealed that only 34.10% of businesses were engaged in e-commerce activities. This indicates that e-commerce penetration in Indonesia remains relatively low, with conventional business models still dominating. The primary reason cited by MSMEs for not adopting e-commerce is their familiarity 5 with traditional sales methods. Other factors hindering e-commerce adoption include insufficient knowledge or skills, security concerns, and various other challenges

4 Discussion

E-commerce offers significant opportunities for business growth and increased market access. However, successful e-commerce ventures must prioritize risk management, regulatory compliance, and innovation to meet the evolving market demands. E-commerce businesses face a range of challenges and risks, including intense competition, heavy reliance on technology, data security concerns, regulatory hurdles, fraud, and crime. To navigate these challenges, businesses must develop effective strategies and solutions, such as implementing robust systems and infrastructure to optimize operations and enhance customer service. To foster e-commerce development and instill consumer confidence, the Indonesian government continues to introduce regulations to address the increasingly complex market needs. Notable examples include Law No. 19 of 2016 on Electronic Transactions and Government Regulation No. 80 of 2019 on Trade Through Electronic Systems.

The rapid evolution of e-commerce is fueled by advancements in technology and shifting consumer preferences. Key trends include the integration of artificial intelligence (AI) and machine learning, the growth of mobile commerce, and the deployment of chatbots and virtual assistants to enhance customer service. These trends underscore the necessity for e-commerce businesses to remain at the forefront of technological developments and leverage innovative solutions to deliver exceptional online shopping experiences. By capitalizing on these trends, e-commerce businesses can optimize operational efficiency, expand their market reach, and provide more engaging and convenient shopping experiences for customers. Given the dynamic nature of the e-commerce landscape, businesses must continuously monitor emerging trends and innovations to sustain and grow their operations. 6.

To thrive in the competitive e-commerce landscape, micro, small, and medium-sized enterprises (MSMEs) must adopt strategic approaches. Key strategies include implementing effective digital marketing initiatives, leveraging social media to enhance brand visibility and promote products, selecting the most appropriate e-commerce platform, optimizing inventory and product delivery processes, crafting compelling and innovative product descriptions, and continuously monitoring market trends and technological advancements.

5 Conclusion

Based on a comprehensive analysis of e-commerce development, trends, and regulations, it is evident that e-commerce is a dynamic industry with substantial potential for continued growth in Indonesia. Several factors strongly suggest the ongoing expansion of e-commerce, including the increasing population, the rising number of smartphone and internet users, the growing popularity of social media, and the convenience of electronic financial transactions.

While the proportion of MSMEs engaged in e-commerce activities remains relatively low compared to traditional MSMEs, there is a clear upward trend in e-commerce adoption. The rapid advancements in technology and the shift in consumer behavior from offline to online shopping strongly suggest that e-commerce in Indonesia will continue to expand significantly in the years to come.

However, e-commerce businesses are not without their challenges and risks. These include intense competition, reliance on technology, data security concerns, logistical challenges, regulatory hurdles, and the threat of fraud and crime. Therefore, whether by choice or necessity, MSMEs must acquire the knowledge and expertise to operate their businesses effectively in the digital realm to ensure their survival and success in this rapidly evolving era.

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