

# **The Digitalization of MSMEs in Pelawi Utara District, Langkat Regency: Opportunities and Challenges**

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## **ABSTRACT**

This study's goal was to outline the opportunities and challenges of how digitization will affect MSMEs. We combined publication trends from numerous papers using the qualitative methodology to find them. We found that the process of digitizing MSMEs involves switching from analog to digital technologies in order to improve the efficacy and efficiency of MSMEs business operations. The digitization of MSMEs has compelled stakeholders in MSMEs businesses to change corporate governance from outdated techniques to more contemporary ones. For MSMEs, becoming digital involves more than just utilizing technology to sell goods. Additionally, MSMEs will be able to manage their accounts, track their cash flow, and buy raw materials online as a result of digitization. As a result, digitization is crucial to the whole operation of MSMEs business activities.

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**Keywords:** Digitalization, MSMEs, Langkat Regency

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## **1. INTRODUCTION**

Rapid technological development, caused by the Covid-19 epidemic, is enabling interaction and a variety of digital activities, and the use of digital technology in social interactions has increased. It draws attention to the contemporary digital transition age. The digitalization of MSMEs is an effort to change the business participants that rely on technology for product marketing and sales. Digital transformation in rapid technological advancements make it easier to engage and conduct activities online. MSMEs are a representation of digital transformation in the business sector, an effort to use technology to change how a business person markets and sells products (Soesilo & Tampubolon, 2023).

Modern businesses are expected to quickly adapt to the digital innovation and open innovation paradigms in the contemporary global marketplace. The use of digital technology has changed how firms approach innovation and management. Through online marketing platforms and global payment networks, digitalization makes it simple for businesses to reach worldwide customers. A key component of a company's success and sustainability is internationalization, which is made possible by technology developments in accessing international markets.

Digitalization, according to Gartner (2018), is the use of digital technology to revolutionize corporate operations and produce new sources of income and value. It entails making the switch to a digital business model. On the other hand, digital transformation is a purposeful and continuing process of strategically and tactically developing a company's business model online. By enhancing the consumer experience and streamlining corporate operations for greater effectiveness and efficiency, digitalization has the potential to strengthen competitiveness.

The interactions between businesses and numerous stakeholders, including consumers, suppliers, and other parties, have undergone a fundamental transformation as a result of digitalization. Additionally, it has completely changed how businesses operate and grow internationally (Matarazzo et al., 2020). Small and medium-sized businesses (SMEs) have been particularly motivated by the digital revolution to adapt and take advantage of opportunities in international marketplaces.

Using industry 4.0, which can be optimized to empower the potential of superior and competitive human resources, as the basic capital to encourage regional development in a more genuine and sustainable way, is one strategy to be able to accelerate the recovery of development. However, due to the fact that not all Indonesian SME actors are prepared to manage their enterprises digitally, digital transformation does not always occur as planned. Perceptions of optimism and internet proficiency have a significant impact on how well SMEs are digitizing. Additionally, the degree of comfort and security is not excessive. To increase the digitization of SMEs in Indonesia, some methods must be implemented (Mindarto, 2020).

Many MSMEs operate their businesses using Internet-based technologies. For instance, creating a website for businesses and promoting through social media. This is because there is a significant amount of fierce corporate competitiveness. In fact, MSMEs that have adopted digital transformation have a number of advantages, such as: (1) Expanded range, The process of converting an institution's or organization's operations into a fully digital system is known as digital transformation. To better serve the demands of brands and customers, this is done. Product marketing has up to now been done in a conventional way, but the digital transformation has allowed marketing to reach remote regions of Japan and even other countries. Small businesses can also use cellphones to reach their target consumers. This is inextricably linked to the way of life of those who favor internet purchasing over conventional retail. This enables the MSME to develop a website for the business and utilize the mobile application to market the enterprise and its goods. (2) Greater sales for MSMEs, opening up chances for increased income is digitization's second benefit. Because you will generate more income the further your marketing reaches. especially when MSME business players advertise their items over several social media platforms. (3) Digital transformation includes payment solutions for buy transactions in order to streamline transactions. You can offer your customers a virtually limitless number of payment options. Pay with your mobile device, online banking, or a free digital wallet that you may get from the Google Play store, for instance. This digital payment does away with the requirement for MSME company partners to give out change, which is quite beneficial. (4) Adapt to trends Due to the advent of digitization, MSMEs can adapt to consumer trends and stay current. Opening an online store, becoming a YouTuber, producing digital content, enrolling in online courses, selling products utilizing a drop-shipping or reseller system, and developing graphic design skills are examples of digital MSMEs adapting to societal trends. Additionally, we offer design services (Feliciano-Cestero et al., 2023); (Sui & Yao, 2023).

Digitalization on MSMEs provides opportunities and challenges. This focus is interested to explore since in digitalization era like now, everything will be connected online and will impact a big benefit to the MSMEs owners.

## **2. LITERATURE REVIEW**

The Gross Domestic Product (GDP) and the Indonesian economy are both supported by Micro, Small and Medium-Sized Enterprises (MSMEs). In this instance, the government keeps funding the growth of MSMEs in Indonesia, including by helping them go digital. Since the vast majority of Indonesian business owners fit into his MSMEs category, MSMEs themselves are given a lot of attention. The MSMEs in Indonesia are governed by Law No. 20/2008. Sales or business assets are one of the most crucial elements to comprehend about a small corporation. A micro business can have assets worth up to 50 million IDR and 300 million IDR in annual revenue.

MSMEs, on the other hand, have assets between 50 and 500 million IDR and a yearly revenue between 300 and 2.5 billion IDR. Second, medium-sized businesses have assets between 500 and 10 trillion rubles and a yearly revenue between 2.5 and 10 trillion rubles. In Indonesia, SMEs are expanding fairly quickly. According to the Ministry of Cooperatives and MSMEs, there are currently 64.2 million MSMEs in Indonesia, accounting for 61.07% of the country's GDP, or 8,573 trillion IDR. The capacity of Indonesia to absorb 97% of the world's labor force and draw 60.4% of the world's investments is another aspect of the country's economic contribution.

The most important factor now influencing innovation and entrepreneurship is digitization. Current research on digital entrepreneurship and innovation evaluates earlier studies and forecasts potential for the future (Berger, 2021). Digital technology successfully crosses traditional entrepreneurship and the innovation process, which is what digital entrepreneurship and innovation refer to. A decent assessment of the changes in digital technology can be found in these two sectors. The underlying presumption is that digital technology, which varies fundamentally from conventional technology, is another technological shift. Digital entrepreneurship is a significant driving force in the innovation ecosystem. This idea modifies the structure, function, and network processes of the entire business system, ultimately altering the different levels and dimensions of the innovation system. Digital technology may offer new economic opportunities, disrupt

industries, and create new vulnerabilities in order to bring about the essential reforms to the innovation system (Sataalkina, 2020).

Advice on digitization for MSMEs when digitizing MSMEs, bear the following in mind: (1) Determining your technological needs The first piece of advice is to determine your company's specific technology requirements. Because each MSME has particular demands and challenges. (2) Selecting the best software MSMEs players need to be able to pick the best software if they want to stay ahead of the competition. This is due to the fact that your technology deployment plan needs to be in line with the technological needs and goals you've already determined. (3) Planning your business. The meticulous preparation of a business plan is the next piece of advice for a successful digitization of MSMEs. By way of short-, medium-, and long-term planning, for instance (Liu et al., 2023); (Xin & Du, 2022); (Trincado-Munoz et al., 2023); (Sucupira Furtado et al., 2023).

The options for doing business must be understood before starting a digital firm. The creation of a firm in the digital age that makes use of the cutting-edge internet technology, software, electronics, and everything being packaged in digital form, from production and services to marketing. Digital enterprises include all categories of manufacturing and service companies that use online marketing, whether through websites or computer technology apps. The industries of transportation, digital services, finance, lodging, and e-commerce offer the most prospects in the world of digital business. The five chances are commercial prospects with a high likelihood of fierce competition.

It's difficult to build a successful digital firm; many fails or are bought by other digital enterprises. The challenges of starting a firm in the digital age call for unique vision and skills. If a digital business is properly launched, the subsequent process will be simpler and produce the finest outcomes. digital enterprises that use developments in digital technology to produce products and services for customers (Megawati, 2022). The following are some sensible actions to take before launching a digital business:

1. Idea Validity

Different business concepts that are inventive, original, and creative can be transformed into business plans. Prior to putting the concept into practice, it is important to examine the issue, determine how it will affect the user or the environment, and convey the answer. The target is presented with current business concepts as a way to address pressing issues. The idea's viability will then be determined. This is a crucial factor to take into account before launching a digital business.

2. A plan for business optimization

After receiving the idea, it's time to lay out the objectives in a business plan that is developed over the course of numerous stages and will take some time to complete. Try to complete a list of ideas in the allocated time; a business plan only requires a basic idea and some effort on the part of the maker. A straightforward plan applied to the appropriate target market will do much more to build a successful online business.

3. Updated Study

Researching markets or products is the third phase. Making decisions on the form or digital business model that will be realized is based on the research's findings. At the very least, conduct rudimentary market research to identify target customers, possible business users, and the appropriate digital media to be used.

4. Internet technology insights

Starting a digital firm requires the fourth step of entrepreneurship, which is to think and act with an emphasis on technology and information systems. Even experienced digital entrepreneurs and newcomers need to have a wide understanding of technology.

5. Uniqueness

The fifth phase is to quickly expand the digital business. Where there will undoubtedly be fierce competition, authenticity of the product or business is essential. Digital firms need unique products in order to compete and survive. Originality in concepts, offerings, and services is crucial for survival in the digital economy. Originality can result from thinking that is different from the norm and more beneficial to consumers.

6. Reliability

Consistency is the secret to a successful internet business. The creation of a well-structured plan with consistency in its execution is the first step toward achieving consistency in digital business processes. Digital enterprises will become more inventive and have the correct methods to launch and retain them among consumers if they are consistent.

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7. Development of digital businesses

Within a semester, results from the regular execution of digital business ideas will become apparent. Within six months, the digital business's progress increases, indicating potential for growth. To stabilize the company and reduce the likelihood of business losses or financial and non-financial business hazards, it is preferable to expand the digital business gradually. Starting a digital business requires keeping in mind a number of key factors that will assist business success in the digital age, such as maximizing the use of social media, running online promotions, and developing an appealing e-commerce website.

**3. RESEARCH METHOD**

The literature review approach is used in this qualitative study to gather information about foreign branding and brand perception from a range of sources, including books on the topic, journal papers, and other reliable web sources. The objective of this study is to present the most current and trustworthy data on best practices for the digitalization of MSMEs, as well as possibilities and problems. The results of this study can assist marketing and management experts in effectively digitalizing MSMEs to maximize product sales (Soesilo & Tampubolon, 2023).

**4. RESULTS AND ANALYSIS**

**a. Opportunities in Digitalization of MSMEs**

MSMEs are an important component of the Indonesian economy that contribute significantly to overall economic growth. The expansion of MSMEs is accelerating each year. We can all agree that the existence of MSMEs allows for the absorption of the labor force. The world has long since reached the "4.0 era," in which every activity is highly dependent on one another and constantly changes to take advantage of ever-more advanced technical advancements. To all businesspeople, this news is like a breath of fresh air. Due to the existence of this era shift, all business actors must adjust with the times by utilizing technological advancements.

Business people are being forced to adapt in order to keep up with the changes brought about by the increasingly quick shift to digitalization (Idah & Pinilih, 2020). This is regarded as reasonable for large-company offenders. Due to the abundance of resources, they frequently adjust to changes without much trouble. With MSME actors, it is different because they require forward planning in order to follow changes and movements in the business world. It is obvious that many MSME actors are still technologically illiterate and prefer to continue operating their businesses manually as a result of a lack of information or socialization regarding technology/digitalization.

Furthermore, due to the government's lack of steadfastness in offering guidelines in the form of training, seminars, and creating security in the digitization system, there are still people who are tech-savvy who decide not to participate in the development of the digitization of MSMEs. This indicates that there are still a lot of criminals in it, which will undoubtedly have an effect on consumers and MSME business actors. Furthermore, due to the government's lack of steadfastness in offering guidelines in the form of training, seminars, and creating security in the digitization system, there are still people who are tech-savvy who decide not to participate in the development of the digitization of MSMEs. This indicates that there are still a lot of criminals in it, which will undoubtedly have an effect on consumers and MSMEs business actors.

This demonstrated that MSMEs developers do gain from the rise of digitization, and customers have already noticed these benefits. In order to streamline each other's transaction procedures, particularly during the pandemic. The use of digitization in the market access expansion line has demonstrated the ability to generate a large number of prospects that were not before attained. However, in practice, a lot of MSMEs are still hesitant to switch to a digital system. Even MSMEs that are a part of the digital ecosystem nevertheless face difficulties, particularly with regard to product and actor/HR readiness (Wijoyo, 2020). Digitalization, however, is a tremendously complicated system that requires active participation from everyone. MSMEs that are not blind to how digitization is progressing. It is not entirely operating smoothly in terms of the application of digitalization. There, both internal and external parties need to play a part (Halida & Wilantini, 2022).

The digital transformation will run into problems or won't yield the best results if there isn't good reciprocity from both parties working together. The following facilities should be made available through digitization:

- (1) Attempts to improve consumer interaction with businesses for those who rely on technological advancements in their daily lives.
- (2) Develop into an engaging platform for debate about informing all consumers.

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- (3) Attempts to use technology in all corporate operations for the sake of planning, analyzing, and researching ways to attract and keep customers.
  - (4) Attempts to speed up the process of using the internet to buy and trade commodities, services, information, and ideas (Febriyantoro & Arisandi, 2018).

**b. Challenges in Digitalization of MSMEs**

In this survey, respondents were questioned directly about the issues they had with finances, operations/production, marketing, human resources, and corporate management in order to identify the internal issues MSMEs faced. It is hoped that MSMEs will be able to understand what knowledge requirements are required but not owned by companies and can be accessed from outside the company, for example, from universities through knowledge transfer activities from universities to MSMEs, by identifying problems in each functional area. The issues of MSMEs confront can be categorized into financial, operational, marketing, human resources, and organizational management issues based on the responses of the respondents. According to the financial side, MSMEs' issues stem from their inability to get sufficient finance; resulting in issues with MSMEs operating normally, limited working capital, difficulty repaying capital loans, limited and simple financial records that focus on cash flow, high material costs that don't justify the income, high implementation costs for digital technology as business capital, improper budgeting for MSMEs, and a lack of asset separation between personal and business assets.

These issues are those faced by Indonesian MSMEs from an operational perspective: Lack of knowledge regarding production and business operations, tight product price competition, insufficient inventory and quality control systems, low employee skill in production, which results in low productivity, an unclear production schedule, high storage costs, and a lack of support from other parties, such as fund providers, suppliers, distributors, difficulties in obtaining raw materials on time, limited and inadequate production equipment, the pandemic limiting MSMEs' operating hours, a lack of Standard Operating Procedures (SOP), and a lack of innovation all prevent MSMEs from competing with other parties who work in a related industry.

The following are the issues Indonesian MSMEs are facing from a marketing perspective: a smaller market share; less reliance on word-of-mouth advertising; marketing that only uses social media platforms like Instagram, Facebook, and WhatsApp; fewer networks; fewer distribution channels; homogeneous products being marketed; lack of knowledge and the use of digital marketing; MSMEs typically do not have marketing staff; minimal initiative in product marketing, lacking a brand and packaging; not working with other parties. The following issues are those that Indonesian MSMEs confront in terms of human resources: Lack of technology, a lack of motivation and initiative to learn new things, resistance to change, a lack of a sense of belonging at work, a lack of training and development opportunities, a lack of trust in coworkers, and difficulty in the succession process are just a few of the issues that low skill and competence of employee's face.

The issues that Indonesian MSMEs face can be categorized based on the administrative and business management aspects as follows: administrative records are still managed by the owner; there is a lack of knowledge regarding company administration; paperless administrative work is still hardly ever implemented by MSMEs; MSMEs have not adopted and utilized information and communication technology optimally; and administration activities are still disorganized and chaotic. In terms of business management, traditional and conventional management is typically used when the owner and family control the company, group-based management is implemented, the manager makes decisions, and business management is still the owner's responsibility. Additionally, respondents were asked to list any knowledge gaps that may be filled by colleges providing MSMEs with training and development.

The following types of knowledge transfer can be distinguished in relation to the actions MSMEs from universities require to increase their competence and business: business management, the use of information and communication technologies, branding for a company, financial management for MSMEs, a strategy for increasing market share, entrepreneurship and leadership in running a business, and the empowerment of human resources (Anatan & Nur, 2023).

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**c. Opportunities and Challenges in Digitalization of MSMEs in Pelawi District**

Some opportunities and challenges were found in Pelawi district, Langkat regency. There were some MSMEs which ran the business on culinary. One of them was tofu production in Berkah Tofu Production. This MSMEs was well-known till another village. The opportunity found there was the tofu production could raise up their family level. While the challenge was the owner's knowledge in technology or digitalization was still very low.

**5. CONCLUSION**

Social media and digital platforms can aid MSMEs in coping with the issues and circumstances that are currently making their lives difficult. MSMEs players use online platforms including social media, e-commerce, and other digital technology to expand and maintain their enterprises. Some of them have been able to emerge by doing business online, even though they haven't fully recovered.

However, aid in the development of digital MSMEs must also come from the government and the Ministry of Cooperatives and MSMEs. The government offers a lot of help, guidance, and funding to micro, small, and medium-sized enterprises (MSMEs) during the Covid-19 pandemic. It should go without saying that collaboration between MSMEs, the government, and other supporting parties would make the process of MSMEs' digital transformation run smoothly and help the government quickly reach its aim of growing the number of MSMEs with a digital foundation.

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