The Survival Strategies of Micro, Small and Medium Enterprises in The New Normal Era

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ABSTRACT

The Covid-19 Pandemic is a challenge in itself for MSME players to be able to maintain their business. The purpose of this study is to determine the potential problems and survival strategies of MSMEs during the Covid-19 pandemic era. The method used in this research is descriptive quantitative with this type of literature survey research. The data used in this study are secondary data published in the Ministry of KUKM, BPS, and various literature that can be used to answer research problems. The study results found that many MSMEs were forced to close their businesses due to decreased consumer demand for working from home. However, many MSMEs are trying to survive in their business by marketing their products through E-Commerce, digital marketing, improving product and service quality, pricing strategies, promotion strategies, and product diversification, and taking advantage of opportunities that exist in the pandemic era. Besides, there are many incentives that the government has implemented to reduce production costs in the form of interest subsidies as well as providing additional capital for MSME players.

1. INTRODUCTION

The government makes economic development one of the goals in the national development plan. In the principles of implementing national development compiled by the National Development Planning Agency (BAPPENAS), economic development is a development that provides equal opportunities for every human being to gain economic access. Such principles are directed at efforts to strengthen the economic resources possessed by every human being. Development goals economy is increasing the efficiency of economic resources in the context of realizing people's welfare. One of the efforts to achieve economic development goals is to make the Micro, Small, and Medium Enterprises (MSMEs) sector the economy's driving force. (Nuard, 2017). MSMEs are businesses that help the Indonesian economy. Because UMKM will create new jobs and increase foreign exchange through business entity taxes (Rudjito, 2003), according to the Ministry of Cooperatives and Micro, Small, and Medium Enterprises, the role of micro, small and medium enterprises (MSMEs) in the Indonesian economy can at least be seen from (1) their position as a major player in economic activities in various sectors, (2) providing employment opportunities. The largest, (3) an important player in developing local economic activities and community empowerment, (4) creating new markets and sources of innovation, and (5) contributing to maintaining the balance of payments through export activities. Based on data from the ministry of cooperatives and SMEs, MSMEs have contributed to employment. From 2010 to 2018, MSMEs can absorb more than 95 million workers each year; even the highest absorption generated by MSMEs was in 2015, amounting to 123.2 million workers. In addition to employment, MSMEs contributed to the growth of Gross Domestic Product (GDP); from 2010 to 2019, MSMEs contributed more than 56% of GDP each year. However, the Covid-19 Pandemic that began in 2020 caused a decrease in MSMEs' contribution to The GDP is quite large, namely be 37.3%.

The Covid-19 Pandemic requires the government to implement various policies to reduce the spread of the Covid-19 virus, and this policy requires restrictions on various community activities, including community economic activities. The policies to reduce the spread of the Covid-19 virus that the government has implemented are Social Distancing, Physical Distancing, Large-Scale Social Restrictions (PSBB), and Restrictions on Community Activities (PKM). Since this policy was implemented, according to the Ministry of Cooperatives and Micro, Small, and Medium Enterprises (Kemenkopumkm), as much as 90% of MSMEs have been affected by the Covid-19 Pandemic (Olavia, 2020). A report on the results of a survey by the Asian Development Bank (ADB) states that around 50 percent of Micro, Small, and Medium Enterprises (MSMEs) have closed their businesses due to its impact Covid-19 Pandemic. Meanwhile, 88 percent of micro-businesses no longer have savings(Boys, 2020). Many things can threaten the sustainability of MSMEs, one of which is the Covid-19 Pandemic. There are three challenges to MSMEs in the pandemic era, namely: a) Raw material supply difficulties; b) Cash flow problems; c) Drop-in demand(Catriana, 2020). From the survey (CNN, 2020), MSMEs experience
a decrease in sales turnover by an average of 40-70%, so that many MSMEs have difficulty paying interest and installments every month. To minimize difficulties for MSMEs, the government has issued various programs for both bankable and unbankable MSMEs. Seeing this phenomenon, the authors would like to conduct further research by focusing on research questions, namely: a) How is the development of MSMEs in the Covid-19 pandemic era; b) Problems faced by MSMEs during the Covid-19 period; c) Strategies for developing MSMEs in the Covid-19 era.

2. LITERATURE REVIEW

The survival strategy is a very interesting concept to research, considering that every business is currently having problems maintaining its business amid the Covid-19 Pandemic. The company's survival strategy is closely related to its ability to survive (Susilo et al., 2003). In Febrani (2017), Suharto defines a survival strategy as a person's ability to apply a set of ways to overcome various problems surrounding his life. The strategy for handling this problem is the ability of all family members to manage their assets. Setia (2005) states a survival strategy as a series of actions chosen by standards by socially and economically poor individuals and households. MSMEs are diligent workers and never give up in any condition; even though they are full of limitations, they can still survive. MSMEs will optimize all the resources they have so that they can maintain the survival of their families. Raiquni (2003) defines a material strategy in the context of smallholders. The survival strategy is a strategy of farmers who own narrow land or work on other people's land and are classified as poor. Farmers with a survival strategy usually manage very limited natural resources or are forced to become farm laborers and manual labor with low pay, usually just enough to make a living without saving for capital development. According to Suharto (2009), survival strategies in dealing with economic shocks and pressures can be carried out with various strategies. Survival strategies can be classified into three categories, namely active strategy, passive strategy, and network strategy. Farmers with a survival strategy usually manage very limited natural resources or are forced to become farm laborers and manual labor with low pay, usually just enough to make a living without saving for capital development. According to Suharto (2009), survival strategies in overcoming economic shocks and pressures can be carried out with various strategies. Survival strategies can be classified into three categories, namely active strategy, passive strategy, and network strategy. Farmers with a survival strategy usually manage very limited natural resources or are forced to become farm laborers and manual labor with low pay, usually just enough to make a living without saving for capital development. According to Suharto (2009), survival strategies in overcoming economic shocks and pressures can be carried out with various strategies. Survival strategies can be classified into three categories, namely active strategy, passive strategy, and network strategy.

1. Active Strategy: An active strategy is a survival strategy that is carried out by utilizing all the potential that is owned. According to Suharto (2009), an active strategy is a strategy carried out by low-income families by optimizing all the family's potential (for example, doing their activities, extending working hours, and doing anything to increase their income). The active strategy that MSMEs usually carry out is diversifying their income or seeking additional income by doing side jobs. According to Stamboel (2012), income diversification is carried out by MSMEs so that economic actors can get out of poverty. According to Kusnadi (2008), one of the strategies used by households to overcome economic difficulties.

2. Passive Strategy: Passive strategy is a survival strategy that is done by minimizing family expenses. According to Suharto (2009), a passive strategy is a survival strategy by reducing family expenses (for example, costs for clothing, food, education, etc.). The passive strategy that MSMEs usually carry out is to get used to living frugally. MSMEs do a frugal lifestyle so that their income can meet the basic needs of their families.

3. Network Strategy: A network strategy is a strategy that is carried out by utilizing social networks. According to Suharto (2009), network strategy is a survival strategy that is carried out by establishing relationships, both formal and with the social and institutional environment. According to Kusnadi (2000), the network strategy occurs due to social interaction in society; social networks can help low-income families urgently need money.

Micro, Small, and Medium Enterprises, commonly called UMKM, refer to a business that can stand alone, which refers to the type of small-scale business. There are several perspectives related to the definition of MSMEs. The World Bank defines MSMEs using 3 (three) criteria: the number of employees, the annual balance sheet (assets) in US dollars, and turnover in US dollars. MSMEs, according to the perspective of the World Bank, are divided into three types, namely: (1) Micro-Enterprise with the criteria of the number of employees working less than ten people, annual income not exceeding $ 100,000, total assets owned not more than $ 100,000; (2) Small Enterprise with the criteria of the number of employees of more than 10 people and less than 50 people, annual income of more than $ 100,000 and less than $ 3,000,000, and total assets held over $ 100,000 and less than $ 3,000,000; (3) Medium Enterprises with the criteria of the number of employees who work more than 50 people and less than 300 people, annual income of more than $ 3,000,000 and less than $ 15,000,000, and total assets owned more than $ 3,000,000 and less than $ 15,000,000 (International Financial Corporation, 2008). The definition of MSMEs, according to Bappenas, is seen from the role of MSMEs in the economy. Meanwhile, the definition of UMKM according to BPS is seen from the number of workers involved in production activities, namely a) Small business is a business that has a total workforce of 5 to 19 people; b) Medium-sized businesses are businesses that have a workforce of 20 to 99 people (Yazfinedi, 2018). MSMEs have an important role in the national economy because even though MSMEs are small-scale business units, they can make a very large contribution to economic growth through the added value provided by the business units of the MSME group. Besides, the development of MSMEs
from time to time can create many jobs. Bappenas explained that MSMEs have a very important contribution to the national economy, namely being able to absorb labor and expand employment opportunities, form gross domestic product (GDP), increase economic growth, and provide safety nets low-income people can carry out economic activities productively. (Kencana, 2020). Mariana (2012), in her study, explained that the performance of MSMEs has an important role in supporting the national economy. MSMEs can contribute to the value of the gross domestic product (GDP) and employment. MSMEs also have a role in increasing export value. In the era of the Covid-19 Pandemic, MSMEs will use all three strategies to survive in their business. They will combine the three strategies so that their business activities continue and can expand their business by utilizing online technology. MSMEs are business units that can immediately adapt to existing conditions to diversify their products, build networks with many parties, and try to put the brakes on various expenses that are not relevant to their business. The ability to survive MSMEs is in line with the opinion of Audretsch et al. (1997), which depends on three aspects, namely: (1) the startup size, the number of employees owned when the company started, (2) capital intensity, reflecting the production costs that must be incurred. especially for fixed costs and (3) debt structure, the capital structure mainly due to a large amount of debt interest as a fixed expense that must be borne. The difference in the value of these three elements causes a difference in the level of survival of an MSME company that is not burdened by a lot of burdens will still avoid the difficulty of bearing all costs in worsening economic conditions, even though MSMEs often experience difficulties in managing economies of scale and find it difficult to compete with large-scale economies. The debt structure has a positive influence on the chance of a company to survive for two reasons. First, based on agency theory (Jensen, 1986) states that the higher the ratio of debt to equity, resulting in higher interest on debt, will limit available cash flow in the company so that the company loses the opportunity to invest this cash flow into more investment projects. profitable. Second, according to Caves and Porter (1976), large investments can prevent new competitors from entering but at the same time prevent companies from exiting flexibly from the industry. From the two opinions of Jensen (1986) and Caves and Porter (1976), it can be concluded that MSMEs are more flexible in diverting their cash flow to more profitable projects because Exit's barrier is not high. This differs from large companies, which are more rigid because the losses they incur are greater. A large amount of debt and other fixed expenses make it difficult for companies to overcome financial problems if economic conditions deteriorate. In improved economic conditions, large companies with large economies of scale will easily bear all the heavy burdens and be more efficient. However, in a crisis, large businesses will suffer bigger losses.

3. METHODOLOGY

The research method used is descriptive quantitative. According to Sugiyono (2019), descriptive research is research conducted to determine the independent variable’s value for one or more variables without making a comparison or relationship with other variables. Furthermore, Sugiyono (2019) revealed that qualitative data is data in words, sentences, narratives, gestures, facial expressions, charts, pictures, and photos. The type of research used is literature study to obtain data by reading, studying, and citing literature related to the topic in question. The data used in this study is secondary data, namely data obtained by researchers from existing sources or data from previous studies. These data include data sourced from the Central Statistics Agency (BPS), the Ministry of Cooperatives, and MSMEs (Kemenkop and UMKM). The analysis method used in this research is descriptive statistics, namely the method of analysis regarding the collection and presentation of data in the form of statistical data in pictures, diagrams, and graphs which are then summarized into a narrative.

4. RESULTS AND DISCUSSION

This section explains the development of the number of MSMEs in Indonesia before and after the Covid-19 Pandemic and MSMEs’ efforts to survive the Covid-19 pandemic era.

4.1 Development of MSMEs Before Covid-19

MSMEs are a sector that has proven not to be vulnerable to economic crises. At the time of the economic crisis in 1997, many economic sectors, especially the upper middle class, went bankrupt, the SME sector was still standing strong. Based on data from the Ministry of Cooperatives and SMEs, the number of UMKM units in Indonesia increases every year. This is shown in Figure 1.
From Figure 1, it can be seen that every year the number of MSMEs in the economy continues to increase. Although MSMEs have classic problems such as lack of capital, management problems, raw material problems, marketing problems, packaging problems, and others, the fact is that the development of MSMEs continues to show a positive trend. This is one part of the positive characteristics inherent in MSMEs. Of the number of MSMEs of that size, 99% of them are micro-small enterprises, and 0.01% of them are large businesses. The very large number of MSMEs will certainly affect the large contribution of MSMEs to national output. Based on data from lokadata.id, in 2010-2017, the contribution of MSMEs in the formation of Indonesia's GDP was an average of 57.08%. In 2017-2019 the contribution of MSMEs increased quite significantly, reaching 60.3%. UMKM is the most effective economic driver because MSMEs can make a very large contribution to the national economy.

Apart from contributing to the formation of GDP, MSMEs have a role as job creators. MSMEs can absorb 97% of the total national workforce, with details of micro-businesses as much as 89.2%, small businesses as much as 4.47%, medium enterprises 3.73%, and large businesses 3% the total national workforce.
In 2017, the contribution of MSMEs was 7,820 trillion, and in 2018 an increase of 8,573 trillion, so that in 2017-2018 there was a growth of 9.64%. The contribution of MSMEs to the workforce in 2017 was 116.4 million people, and in 2018 it was 117 million people, so that the development of its contribution reached 0.47%. MSMEs in Indonesia can donate up to Rp. 8,573.9 trillion to Indonesia's GDP in 2018 or contributed 57.8%. Besides, MSMEs can absorb up to 97% of the total workforce, namely 116,978,631 workers (Jayani, 2019).

### 4.2 Problems faced by MSMEs in the Covid Era

In March 2020, Indonesia experienced a global pandemic caused by Corona Virus Disease's spread (Covid-19). The nature of the virus's spread is so strong that it has resulted in the government issuing a policy to carry out social restrictions. This regulation is stated in PP No. 21 of 2020 concerning large-scale social restrictions to reduce people's movement and the flow of goods distribution. Currently, the government has decided on a new policy, namely the new normal where people are required to adopt new habits by always keeping their distance and complying with health protocols. This policy was made for the Indonesian economy's continuity because this Pandemic resulted in instability in the economy. On the official website of the ministry of cooperatives and MSMEs, it is stated that the Covid-19 Pandemic has the potential to have a direct impact on cooperatives and MSMEs (Hardilawati, 2020). The PSBB policy's existence causes people to have activities inside the house and limit activities outside the home. Pratiwi (2020) explained that the COVID-19 Pandemic could weaken economic activity in the tourism sector and, at the same time, have an impact on MSME players who sell in tourism areas because they become quiet visitors and lose consumers so that the economic activity of MSME players is hampered. Djatmiko and Pudyastiwi (2020) said that COVID-19 impacted reducing MSMEs' turnover due to a decrease in consumer demand. Based on data from the ministry of cooperatives and MSMEs, at the time of the Covid-19 Pandemic, there were 163,713 MSMEs experiencing shocks. There are three challenges for MSMEs in the Covid-19 pandemic era, namely: a) Difficulty in supplying raw materials. The existence of PSBB makes the mobility of raw materials between regions more difficult so that the price of raw materials becomes more expensive and causes the costs to be borne by MSMEs to be higher; b) Cash flow problems. Many UMKM players feel that their income has decreased due to the PSBB policy and physical distancing among the community; c) Drop-in demand. Market uncertainty affects the demand for goods sold by MSMEs (Catrina, 2020).

### 4.3 MSME Strategies to Survive in the New Normal Era

The Covid-19 Pandemic has a direct impact on MSME actors. These impacts include a decrease in turnover, a decrease in the number of consumers, and limited space for business actors to sell their products offline. In a study conducted by Hardilawati (2020), it was found that MSME actors in several regions prefer to close their businesses because of the PSBB policy. However, several MSMEs claim to have made various efforts to maintain their business:

[1] E-Commerce. Narto & Basuki (2020), in their study, argued that to strengthen the selling power of MSME players who were experiencing a decline during the Pandemic, a strategy was needed related to the use of technology through online media.

[2] Digital Marketing. Alfrian and Pitaloka (2020), there are several strategies to survive the MSMEs during the Covid-19 Pandemic, namely (1) utilizing digital marketing by developing promotional media through social media; (2) improving the quality of human resources through technology learning; (3) creating new creative innovations that can attract consumer interest in the product; (4) ensuring security and improving services to consumers; (5) government policy in providing assistance programs to MSMEs.

[3] Marketing strategy. In the new normal era, MSME players can market their products through technology where these products are marketed online through social media such as Facebook, Instagram, Whatsapp, Twitter. Apart from social media, MSME players market their products through e-commerce platforms such as Lazada, Shopee.
Tokopedia, and others. Antara (2020), the transition of marketing techniques to digital business can make MSME players more resilient during the Covid-19 Pandemic. Based on information from the Coordinating Minister for Economic Affairs, until June 2020, around 301,115 MSME players were switching their business online through digital platforms (Alika, 2020). At the end of November 2020, there were 3.4 million MSME players who used the digital platform. The use of digital platforms can make businesses managed by MSME players much more developed than usual (Ayu, 2020). The marketing strategy carried out through digital development can bring MSMEs to expand their business more widely across regions. In distributing products to consumers, MSME players take advantage of logistics and courier business services (Varabi, 2020). The Ministry of Finance said that during the Covid-19 Pandemic, logistics services tended to be stable, even though there was an 18.1% increase in sales via e-commerce. Sales transactions increased significantly to 98.3 million transactions. Based on Anugrah's study (2020), the use of online product marketing technology can increase MSME sales to minimize the impact of Large-Scale Social Restrictions (PSBB).

[4] Service Strategy. Sternad, Krenn, and Schmid (2017) explain that SMEs must respond to customer needs and the market as a form of service to consumers to achieve business excellence. Service quality is one of the factors that determine customer satisfaction. Two main factors affect service quality, namely expected service and perceived. If the service received or felt is as expected, then good service quality will be satisfactory. If the service received exceeds customer expectations, service quality is perceived as ideal service quality (Yuliana, 2015). Meanwhile, according to Parasuraman, Zeithaml, and Berry (1988), there are five determinants of service quality, namely (1) Tangible, namely the ability of a company to show its existence to external parties; (2) Reliability, namely the ability to provide the promised service immediately, accurately and satisfactorily. Performance must be following customer expectations which means punctuality, the same service for all customers without errors; (3) Responsiveness (responsiveness), namely the willingness to provide appropriate and fast service to customers by delivering clear information; (4) Assurance, which includes the knowledge, politeness, and trustworthiness of employees. The components of assurance include communication, credibility, security, competence, and courtesy. (5) Empathy is giving sincere and interpersonal individual attention to customers by understanding specific customer wants and needs.

[5] Product quality improvement strategy. During the Covid-19 Pandemic, MSME players must adjust and condition the sales of their products and services. It is necessary to improve the quality of products and services appropriate to attract consumers' attention. In the research of Tripayana & Pramono (2020) and Lestari (2019), the quality of products and service quality significantly affects consumer purchases and increases customer satisfaction, which later customers will have loyalty. According to Kotler and Armstrong (2012), product quality is defined as a product's ability to meet consumer needs and desires. There are 8 dimensions in determining product quality (1) Product performance or how well the product can be measured; (2) Additional features or attributes that complement and enhance product functionality; (3) Product reliability or ability to withstand possible changes in the business environment in a certain period; (4) The suitability or how well the product is in accordance with the existing standards in the industry; (5) Durability or durability of the product from a technical point of view and economic value; (6) Ease of product repair if there are problems and can be repaired immediately; (7) Product aesthetics, namely how the product is seen, heard or felt; (8) Perception of product quality which includes brand reputation and other factors that can affect consumer perceptions (5) Durability or durability of the product from a technical point of view and economic value; (6) Ease of product repair if there are problems and can be repaired immediately; (7) Product aesthetics, namely how the product is seen, heard or felt; (8) Perception of product quality which includes brand reputation and other factors that can affect consumer perceptions (5) Durability or durability of the product from a technical point of view and economic value; (6) Ease of product repair if there are problems and can be repaired immediately; (7) Product aesthetics, namely how the product is seen, heard or felt; (8) Perception of product quality which includes brand reputation and other factors that can affect consumer perceptions (Garvin, 1988). MSME players can adjust the type of packaging and product durability for the current sales mechanism.

[6] Pricing strategy. During a pandemic, economic activity around the world has decreased, including in Indonesia. This is a challenge in itself for MSME actors in maintaining their business. During a pandemic, MSME players can apply promotional strategies to economical packages that are attractive to consumers. So, prices are affordable, but consumers are still interested in buying products. (Harmony, 2020).

[7] Promotion strategy. In running a business, MSME players must do product marketing in a good and appropriate way. Digital marketing is the right platform for MSME players. Besides, social media can be used as a platform to reach wider consumers and reduce promotional prices. Digital marketing is marketing done using internet access, utilizing social media, or other digital tools. Digital Marketing helps companies or business actors promote and market their products and services and expand new markets that were previously closed or limited due to limited time, distance, and communication methods (Prabowo, 2018). From the research results of Hendrawan et al. (2019), Digital marketing has a positive and significant effect on increasing MSME sales. During a pandemic, a promotional strategy is one way to attract the attention of consumers. MSME actors must be more creative in promoting their products; posting their products on social media is an important part of what MSMEs can do to survive this Pandemic. In addition to the various efforts made by MSME actors, the government has also made various efforts in the form of policies and programs to support MSMEs to survive in the economy. The following are various incentives issued by the government in encouraging MSMEs to survive a pandemic.
### Table 1. Government Incentives for MSMEs

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<tr>
<th>No.</th>
<th>Government Incentives</th>
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<tbody>
<tr>
<td>[1]</td>
<td>The government provides an interest subsidy of IDR 35.2 trillion.</td>
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<tr>
<td>[2]</td>
<td>Placement of government funds in commercial banks for credit restructuring amounting to Rp78.7 trillion</td>
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<tr>
<td>[3]</td>
<td>Expenditures for guarantee services amounting to IDR 5 trillion</td>
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<td>[4]</td>
<td>Guarantee for working capital of IDR 1 trillion</td>
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<td>[5]</td>
<td>Investment financing to cooperatives through the LPDB-Ministry of Cooperatives and SMEs is IDR1 trillion</td>
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<tr>
<td>[6]</td>
<td>The final UMKM DTP income tax incentive is IDR 2.4 trillion</td>
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</table>

5. CONCLUSION

From the explanation in the results and discussion section, it can be concluded that in Indonesia, there are many MSMEs affected by Covid-19. Work from home (WFH) policies and social distancing has caused the sales share of MSMEs to drop drastically, and some have even closed their businesses. However, amid difficulties, various creative ideas that MSMEs have used have emerged. MSMEs have made many efforts by utilizing financial technology so that it is still possible to market their products. Taking advantage of online sales and financial technology is an important part of making MSMEs survive in their business.

REFERENCES


