



# Identifying Digital Transformation Paths in the Business Model of SMEs during the COVID-19 Pandemic

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# INTRODUCTION

## What are SMEs?

- SME is short for Small-to-Medium-Enterprises that are privately owned, with no more than 500 employees

## What is Digital Transformation?

- Digital Transformation is the transformation of strategies and operations by utilising new capabilities provided by digital technologies.

## Why is it relevant to SMEs during the COVID-19 Pandemic?

- Due to the pandemic, most employees are working remotely and firms especially retail companies lose profit, this sparks the need for digital transformation as an effort for survival.

## How can SMEs perform Digital Transformation?



# INTRODUCTION

No one solution fits all, as not all SMEs are in the same circumstances therefore, they need their **own customized strategy** for digital transformation.

The factors determining the most suitable path they can take are as follows:

- Digital maturity
- Learning culture and flexibility
- Ability to form partnerships

In this article, research was done based in Yogyakarta, Indonesia the case study companies were grouped into 3 major paths according to the actions they took.



# Path 1 - “Ready to Jump” to a Digitalized Firm

## FashionCo.

- Has implemented many digital capabilities, such as online channels, websites, online shops and collaborated with other parties.
- Has adopted a hybrid business, which combines both online and offline.

The paths taken by the SME is as follows:

- 1) Implemented digital visioning and strategizing
  - Having a good conceptual understanding of the digital technology vision.
- 2) Digitalization of various organizational functions
  - Increasing Automation.
  - Standardized business process.



## Path 1 - “Ready to Jump” to a Digitalized Firm

- 3) Having a team specifically for implementing digital technology
  - The team will carry out digital transformation gradually.
- 4) Adapting self-learning using technology
  - Instilled a sense of urgency to master digital technology among employees.
  - This in turn compresses the time taken for digital adoption to take place.
- 5) Creatively using emerging-technology to reach more customers (e.g. TikTok).
- 6) Readjusting their organizational structure with the new business processes.



## Path 1 - “Ready to Jump” to a Digitalized Firm

### Consequences:

- Involves dramatic changes and could result in a sustainable competitive position.
- Could be a risky transition.

### Key Success Factor:

- Having a high level of technology maturity.



## Path 2 - Experiencing Financial Distress

ShellfishCraftCo., ContemporaryBatikCo., TraditionalBatikCo., RestaurantCo.,

- Represents retail SMEs who experience financial distress.
- Low digital maturity
- **Main priority** - avoiding immediate collapse by conducting revenue generation.
- All agree to take extraordinary steps to avoid collapse; as such they push themselves to make decisions by investing in digital technologies, focusing on sales function.



## Path 2 - Experiencing Financial Distress

The path taken by the 4 SMEs mentioned before is as follows:

- 1) Digitizing essential business functions only because of their low digital maturity
- 2) Redirected distributions and sales from retail to online marketing
- 3) Improved efficiency by finding new ways of managing resources
  - New suppliers
  - Product development
  - Employee self- training
- 4) Focusing on only revenue contributing products that are suitable for online marketing





## Path 2 - Experiencing Financial Distress

- 5) Sales processes are simplified
  - Adopting all the digital technologies that customers mostly used.
  - Increasing market area by adopting online trading platforms (Shopee, Lazada, Bukalapak, Blibli, etc) and combining digital technologies simultaneously (Whatsapp, e-mail, line, facebook, twitter, instagram).
  
- 6) Performing digital analysis by detecting market trends on social media
  - ShellfishCo. recruited staffs with digital capabilities as a team to identify market trends developed in social media by engaging and interacting with the firm's followers.




## Path 2 - Experiencing Financial Distress

### Consequences:

- Moderate changes toward the firm
- Temporary competitive advantages

### Key Success Factor:

- Creativity to understand the need of the markets-digital scouting, must have sharp eyes and ears
- The use of digital technology is broadened
- Focused on generating revenue




## Path 3 - Lacking Digital Literacy but Rich Social Capital

### **FurnitureCo. and HandicraftCo.**

Looking for digital partners to compensate for their lack of digital knowledge.

- Rely on a product-based model.
- Partners find industrial customers, who buy products in bulk
- Long time employees with creativity and flexibility
- Partners act as eyes and ears of these SMEs
- Mutually beneficial relationship between these SMEs and Start ups with high digital literacy



## Path 3 - Lacking Digital Literacy but Rich Social Capital

### Consequences:

- Short-term solution to the firms' lack of digital knowledge
- At some point, the firm must acquire digital knowledge and integrate digital technologies with the business models

### Key Success Factor:

- Ability to manage the relationship between the firms and partners



# Conclusion

SMEs follow 3 different major paths towards digitalization:

- 1) Accelerating digitalization
- 2) Digitalization of Sales function
- 3) Reaching a bigger market by finding digital partners

Path taken dependent on:

- 1) Digital maturity
- 2) Learning culture and flexibility
- 3) Ability to form partnerships



# Conclusion

Other factors that determines which digitalization paths SMEs follow:

- **Firm's product or service type**

Manufacturing companies cope with low digital literacy issues by collaborating with digital firms as shortcut.

Retail SMEs like fashion companies should enhance digitalization of sales function to increase sales and improve customer experience.



# Conclusion

When facing challenges towards digital transformation, firms should always refer to their

- Organization structure
- Organizational background and history
- Values
- Norms
- How business processes are performed

As basis to determine the next steps they should take.

To gain **competitive advantage**, digital transformation should be carried out **continuously**.

Firms can combine online and offline business to develop relationship between old and new business models with the support of technology.



Thank you!