

Research Article

The Effect of Selling on Social Media on the Profits of Small Businesses

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Abstract.


During the COVID-19 pandemic, many small-scale businesses (SMEs) turned to social media to sell their products. This study analyzed the profit generated from some social media platforms used by SMEs to find which media generated the most profit. The participants for this study were three SMEs selling snacks. We found that the highest profit was attained from selling through Instagram, yet other platforms also generated profits. It signifies that social media can significantly increase profits.

Keywords: social media, selling, SME, profit

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1. Introduction

In 2019 the corona virus first appeared in Wuhan, China. This virus spread very quickly around the world and caused a lot of casualties, because it damaged the lungs and the respiratory tracts of people who were contracted. According to Worldometers real time data as of Sunday (26/9/2021), the total number of coronavirus cases in the world reached 232,245,584. Of these, 208.842,021 patients recovered, while 4,756,399 people died ¹

Indonesia is not exempted in the spreading of the corona virus. The virus was first detected in Indonesia in March 2020. Until now (October 2021), 4.24 million have been contracted, and 143 thousand have died because of this virus. To reduce the spread of the virus, Indonesian government have implemented several regulations. Instead of applying total lockdown, the government implemented PSBB (*pembatasan sosial berskala besar*) or large-scale social restrictions, now it is called PPKM (*pemberlakuan pembatasan kegiatan masyarakat*) or the implementation of restrictions on community activities. Basically, this regulation restricts peoples' activities in all sectors, such as

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education, economy, health, and many others. In economic sector, particularly, this regulation has caused many companies closed their business due to losses. In particular, the business actors of Micro Small Medium Enterprises (MSMEs) or what we know as UMKM (*usaha mikro kecil dan menengah*) were mostly hard hit because of this restriction. During this social restriction, they were not allowed to open their business for some time, the consumers were not allowed to come and dine in, and so on.

To stimulate the economy and help the communities affected by the regulation, the government offered various stimuli, such as providing direct cash assistance (*bantuan langsung tunai-BLT*), reducing taxes, providing relief on credit loans and others. Although the government has executed some measure to ease people's burden, the community should also strive to sustain their economy during pandemic. Hence, besides the existing businesses, many new home-scale businesses appeared. These home scale businesses which are usually engaged in culinary field, are easy to set up because they can start as mere hobbies and can be done at homes. Consequently, the business actors are usually housewives who want to support the economy of their families.

Doing businesses during the pandemic is not easy as there are some restrictions on people's mobility. Sellers cannot promote and sell their products directly to the customers through face-to-face meeting. Thus, business actors should utilize certain strategy to survive and develop their businesses, such as by going digital or doing business using online media. Online business is fully supported by the government, as Vice President Ma'ruf Amin said, "Marketing MSME products online is expected to be able to create multiplier effects that provide greater and wider benefits for MSME actors so that they are able to contribute to improving welfare and the national economy."²

Online media, also mostly known as social media, have become inevitable for doing buying and selling transactions, especially during this pandemic. The Ministry of Communication and Information (Kemenkominfo) noted that online shopping activities increased by 400 percent during the Covid-19 pandemic. "In the era of the pandemic and entering the new normal, telecommunication has become oxygen for all of us, we may even say that online shops during this pandemic have increased by 400 percent,"³.

The use of social media is very helpful for both parties, either the sellers or the buyers⁴. Business actors can increase their sales turnover, run their business from home and maintain their customers' loyalty. On the contrary, buyers do not have to go out, making order with their smartphones, and get everything they need immediately by sitting comfortably at home.

Doing business through social media is convenient for the sellers as well as for the consumers. However, the purpose of doing business is generating maximum profit through increasing sales. Profit is used as a measurement of the success of a company in its business activities. A company is said to make a profit if the sales proceeds are greater than the costs it has incurred. The increase in profit, of course, begins with an increase in sales compared to the costs incurred. By obtaining profits, a company will be able to increase its capital, pay its debts, and develop its business and others.

To obtain maximum profit, home-scale /SME businesses should carefully choose the social media that can increase their product sales. Social media can be used to introduce SME products, goods, and services so that they are better known in the community⁵. Moreover, social media can also be used to communicate, find customers and sell the products⁶ Social media can even attract loyal customers, who not only repeat purchase, but also recommending people to buy the same product⁷. Social media also enables business actors to increase market share by providing venues for attractive promotion and showcasing good product quality.

Yet, the question remains, can selling through social media can increase business profit, particularly for home-scale/SME businesses? Several previous studies confirmed that there is a positive impact on online marketing ability on maximum sales turnover. For example,⁸ reported that women from PKK (Family Welfare Community) get an increase in orders from consumers after using social media. Other study emphasized on the usefulness of social media for effective and efficient communication, which enable them to directly transact and transfer payment. Thus, their businesses can grow rapidly⁹.

While most studies confirm the positive impact of social media toward the sales in general, there have been limited number of studies that concern with the profit generating mechanism of certain social media. Therefore, in this research, we attempt to analyze the impact of online selling/ digital marketing media on achieving operating profits for business activity. In this study, the objects of this research are three home-based business actors, that specialize in selling traditional snacks. These three business actors use four online selling platform through social media, namely through Facebook, Instagram, WhatsApp, and WOM (Word of Mouth).

Thus, we formulate two research questions for this study:

1. To which extent the online selling media provides information about profit margin for home scale businesses?
2. Which type of online selling media generates the most profit for home scale businesses?

2. Literature Review

2.1. SMEs in Indonesia

MSMEs (Micro Small and Medium Enterprises) are activities in the form of business enterprises run by individuals, households, or small business entities. In Indonesia, this kind of business enterprise is called UMKM (*Usaha Menengah Kecil dan Mikro*). The classification of MSMEs is usually carried out by looking at the annual turnover, the amount of working capital or assets, and the number of employees (Law Number 20 of 2008 concerning Small, Micro and Medium Enterprises)

Furthermore, according to Government Regulation no 2 of 2021, ch. III, par. 115, the criteria for working capital for MSME consist of:

- a. Micro Business has a business capital of up to a maximum of Rp. 1,000,000,000.00 (one billion rupiah) excluding land and building for the place of business
- b. Small Business has a business capital of more than Rp. 1,000,000,000.00 (one billion rupiah) up to a maximum of Rp. 5,000,000,000.00 (five billion rupiah) excluding land and building for the place of business
- c. Medium Enterprises have a business capital of more than IDR 5,000,000,000.00 (five billion rupiahs) up to a maximum of IDR 0,000,000,000.00 (ten billion rupiahs) excluding land and buildings for business premises.

While the criteria for annual sales results consist of:

- a. Micro Business has annual sales of up to a maximum of Rp. 2,000,000,000.00 (two billion rupiah)
- b. Small Business has annual sales of more than Rp. 2,000,000,000.00 (two billion rupiah) up to a maximum of Rp. 15,000,000,000.00 (fifteen billion rupiah)
- c. Medium Enterprises have annual sales of more than Rp. 15,000,000,000.00 (fifteen billion rupiahs) up to a maximum of Rp. 50,000,000,000.00 (fifty billion rupiahs).

Despite their small working capital and annual turnover/ sales revenue per year, MSMEs have become the most important pillars in the Indonesian economy for so many years. The data from the Ministry of Cooperatives and SMEs noted that the number of MSMEs currently reaches 64.2 million with a contribution to GDP of 61.07% or Rp. 8,573.89 trillion. MSMEs also contribute to the Indonesian economy by absorbing 97% of the total workforce and collecting collect up to 60.4% of the total investment¹⁰.

To maintain the MSMEs' contribution towards the country's economy, the government has exercised several measures to support the business actors, one of which is by introducing the digital ecosystem to the MSMEs businesses, especially during the recent

pandemic. It was noted, as of the end of December 2020, the number of MSMEs entering the digital ecosystem reached 3.8 million. In fact, as of March 2021, the number of MSMEs entering the digital ecosystem has again jumped to 4.8 million, or an increase of 1 million MSMEs in just four months¹⁰.

A digital ecosystem includes the use of digital means for all business-related activities, such as promotion, marketing, selling, and payment. For micro businesses such as home-scale businesses, which are run by housewives from their own houses, the digital means used are mostly social media sites such as Facebook, Instagram, Twitter, or Whatsapp. These media are used because of their popularity and simplicity.

2.2. Digital Marketing

Marketing is a process carried out to introduce the product to the wider community, by means of trade transactions. The types of marketing that are very often done include Word of Mouth Marketing (WoMM) and digital marketing. Word of mouth marketing is product information obtained by consumers from other consumers verbally and directly, while digital marketing is an attempt to introduce a brand or product using digital media that can reach consumers in a timely, personal, and relevant manner.

Digital marketing can be defined as a tool for reaching marketing target through digital technology applications¹¹. Similarly,¹² define digital marketing as a combination of market knowledge and information technology aimed at expanding and increasing target consumers larger than conventional marketing function. Based on its type, digital marketing consists of SEO (Search Engine Optimization), SEM (Search Engine Marketing), Video, Blog and online print media, and social media, such as Facebook, Instagram, Twitter, WhatsApp, and others.

Social media networks are particularly widely chosen by Indonesian SMEs for marketing and selling their products. With social media, business owners can communicate with the customers through comments, suggestions, and responses. With the criticism and suggestions submitted by customers, SMEs actors can develop the business they run. These communicative activities are important because the company can get suggestions, inputs, and wishes from the customers, which may become the material for company evaluation in the future and enhance their competitiveness⁶.

In Indonesia, the types of social media that are often for business are Instagram, Facebook, and Twitter. In Instagram, users can display images/photos and videos as a means of promotion. In Facebook, users can display images with quite a long text. Meanwhile, in Twitter, the users can post texts which are limited to 280 characters.

However, the choice of which social media used as selling or marketing media will depend on the SMEs' familiarity with the media and the potential sales generated by certain media. Some social media might be more popular and have wider reachability than the others, thus the potential customers for a business might be affected. The higher the number of viewers of a certain social media can increase the possibility of getting higher potential customers. The higher potential customers will eventually generate more sales for the company. In the end, increasing sales will engender more profits for the company.

2.3. Profit

Profit is defined in the dictionary as the difference between the selling price and the purchase price or production costs. Similarly, according to Financial Accounting Standard (SAK), profit refers to the arithmetic difference between income and expenses.

Profit consists of two types, namely gross profit, and net profit. Gross profit is the amount of net sales after deduction from cost of goods sold. In other words, gross profit is the total income that still exists after all production costs are accounted for. In calculating gross profit, some elements, such as taxes, administration, selling costs, and other operating costs are not included. On the other hand, net profit is the value of profit or excess income from trading activities in a certain period, where the value has been deducted by income tax expenses and other costs.

Income is the revenue that arises in the normal course of the company's activities, which are known by various names, such as sales, fees, interests, dividends, royalties, and rents. On the other hand, expenses include cost of production of goods sold, wages, and depreciation ¹³.

The calculation of the cost of production differs for trading, industrial, and service business. Therefore, the calculation of the cost of production for each SME also depends on the type of business carried out by the SME. Calculating production cost is essential for SMEs in running their business ¹⁴. Because by doing correct calculation, they will ensure the profit gained by their business. Because by doing correct calculation, they will obtain the good profit margin from their business.

Profit Margin is one of the commonly used profitability ratios to gauge the degree to which a company or a business activity makes money. It represents what percentage of sales has turned into profits. Simply put, the percentage figure indicates how many cents of profit the business has generated for each 1 Rupiahs of sale value. For example, if a business reports that it achieved a 20% profit margin for current year, it means that

it had profit of Rp 0.20 for each 1 rupiahs of sales generated. This is in line with if the amount of sales of a salesperson is one million rupiah, with a profit margin of 20%, this indicates that the profit from the net sale is worth 200 thousand rupiah^{15,16}.

Profit margin can be calculated using the following formula:

$$\text{profit Margin} = \frac{\text{Sales} - \text{Cost}}{\text{sales}} \times 100\%$$

3. Methods

The participants of this research are three home-scale businesses, namely Dewi's Kitchen, DonatNikmat and Vianes Cake, which are located in Jakarta and Bogor. They are selling traditional snacks such as donuts, spring rolls, dimsum, etc. Due to the scale of sales turnover and capital, their businesses can be categorized as micro enterprises. These businesses use four types of selling media, i.e., Instagram, Facebook, Whatsapp, and WOM. To get the data for this study, we asked for the amount of sales, sales price records and the production costs for four-month period (from February to May 2021). These data were then calculated and analyzed to obtain the profit generation accrued by different selling media. The results are presented in table, graphs and diagrams below.

4. Results and Discussion

The first result as represented in table 1 shows the calculation of profit for each business for the stated period. The profit was calculated by subtracting the total sales by the production cost.

TABLE 1: Profit margin calculation for 4-month period.

Business names	Sales (Rp)	Cost (Rp)	Profit (Rp)	%Profit margin
Dewi's Kitchen	4.656.500	3.336.000	1.320.500	28.36 %
DonatNikmat	42.000.000	28.000.000	14.000.000	33.33 %
Vianes Cake	28.062.000	21.344.700	6.717.300	23.93 %
Total Average				28.54 %

Table 1 shows that in total DonatNikmat achieved the highest profit of Rp. 14.000.000, while Vianes Cake occupied the second position in gaining the profit by Rp. 6.717.300, and Dewi's Kitchen only got Rp. 1.320.500. When the profit margin is calculated, then we can see that DonatNikmat took a 33.33% profit margin for its products, thus it got

the highest profit. Meanwhile, Dewi’s Kitchen got 28.35% profit margin and Vianes cake only took 23.94%. In total, the average profit margin for all businesses was 28.54%.

TABLE 2: Profit Generation by Online Selling Media.

Selling media	Whats App (WA)	Profit in thousands	Instagram (IG)	Profit in thousands	Face Book (FB)	Profit in thousands	Word of Mouth (WOM)	Profit in thousands
	Item sold	Rp	Item sold	Rp	Item sold	Rp	Item sold	Rp
Dewi Kitchen	502	583	25	25	265	327,5	320	385
Donat Nikmat	400	800	6530	13.060	15	30	55	110
Vianes Cake	4286	4.844,3	7	7,9	2	2,3	1606	1.862,8
Total %	5188 (37%)	6.227,3 (28%)	6562 (47%)	13.092,9 (59%)	282 (2%)	359,8 (2%)	1981 (14%)	2.357,8 (11%)

The amount of profit generated by each business depends on the sales income obtained exceed to cost incurred. Thus, the higher sales income that exceed the lowest cost will produce higher profit. The amount of sales income does not only depend on the selling price but also on the number of items/products sold. In addition, the number of products sold is also affected by the selling media used to promote those products. In this study, the three business owners used four kinds of selling media, namely Facebook, Whatsapp, Instagram and Word of Mouth. Since each media generated different sales volume, the profits engendered by each media also differed, as can be seen in table 2 below:

Table 2 shows two kinds of interesting data. Looking at the number of items sold from each selling media, it was shown that Instagram media produced the highest sales for three businesses by 47 %, followed by WA by 37%.The next one was gotten from WOM by 14% and finally from FB by 2%. The number of items sold for Instagram was particularly contributed by DonatNikmat who can sell as many as 6530 donuts from its Instagram account. The second kind of data shown in this table is the profit generated by each media. Related to the number of products sold, the highest profit was achieved from Instagram, amounting to Rp 13.092.900, (59%), the second was attained from WA, as much as Rp 6.227.300 (28%), then from WOM, amounting to Rp 2.357.800 (9%), and finally from FB as much as 359.800 (2%).

The profits for each business based on the selling media are shown in following two charts, Figure 1 for aggregate profits based on selling media and Figure 2 for the percentage of profits in total.

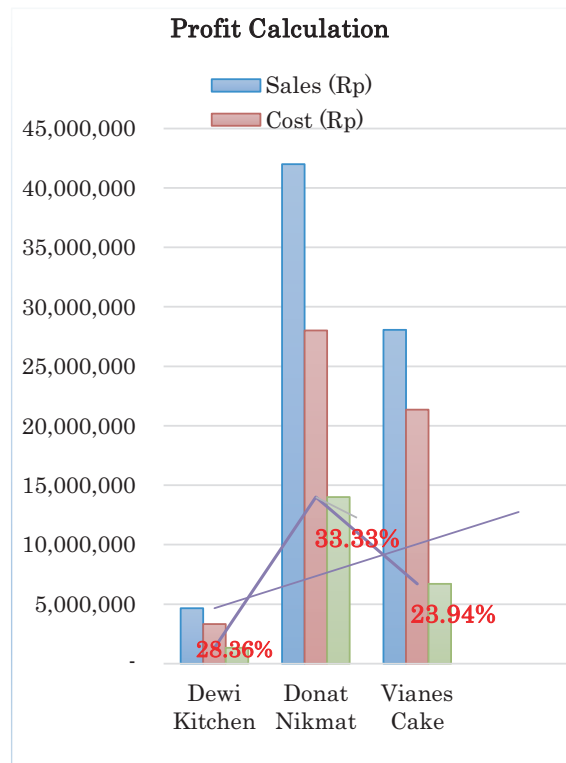


Figure 1: Total Profit margin for household business.

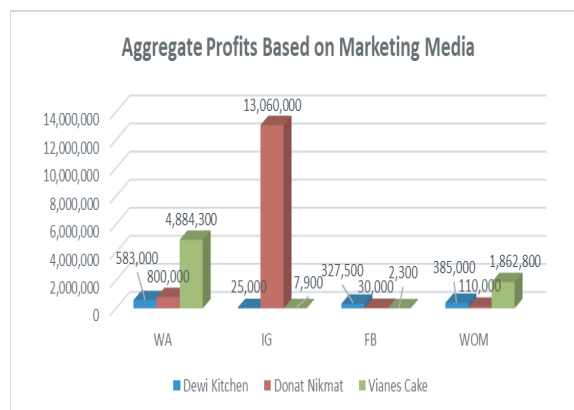


Figure 2: Total Profits by Selling Media.

From Figure 2, we can see that the highest/maximum profit gain is obtained through Instagram media by 59% dominated by DonatNikmat , followed by Whatsapp by 28% dominated by Vianes Cake, then by WOM (11%) dominated by Vianes Cake and finally through Facebook by 2% dominated by DonatNikmat. The results indicate that online based selling media can produce high number of profits for businesses, especially for SMEs. In general, the use of social media for doing business such as for selling or for promoting have been recognized and acknowledged by small-scale businesses to grow their business. Social media such as Instagram or Facebook are particularly chosen because they are easy to use and can be accessed from any devices such

as desktop, tablet, or even mobile phone. The facility to do business online can help business owners, especially SMEs to gain profits for their business. In their study,¹⁷ found that online marketing strategies have a positive effect on the profits of Micro, Small and Medium Enterprises.

Among the four media used in this study, Instagram was found to be the media that generated the most profit, although it is not the case for all business owners. Instagram was mainly chosen by DonatNikmat which generated the highest gain. Instagram application has several conveniences for users (or sellers) for offering their products. By uploading interesting photos or short videos in this application, the potential consumers can see the types of goods and services offered. Besides, viewers can also show their appreciation by giving Like icon or communicate with the sellers through comments section. Although the other social media have similar features, most customers were interested to buy the products mainly through visual display as provided by Instagram. Moreover, Instagram users are mostly millennials who are active in social media and proficient in doing anything online¹⁸.

5. Conclusion

The use of social media as selling media in this technological era is one way to stay afloat in business. Using social media can increase sales and eventually increase the business profit. During this Covid-19 pandemic, where social mobility was restricted, the use of social media can be utilized to its maximum extent to help business actors, especially SMEs, to survive or to sustain their businesses.

In this study, we analysed the profit generation for three home-scale businesses (Dewi Kitchen, DonatNikmat and Vianes Cake) based on the social media used for selling their products. The results showed that the four selling media generate diverse profit gain for each business. For Dewi Kitchen, the highest profit was gained from WA, while for DonatNikmat, the highest profit was gained from FB, while for Vianes Cake the highest profit was also gained from WA. However, for all businesses in total, the order of profit making by selling media is Instagram, WA, WOM, and FB.

Profit generation for a business depends on the number of products sold. In turn, the number of products sold is affected by the media in which the products are promoted. Thus, if the media has wider reachability, it may have wider viewers who may become potential customers for the business. By this line of thought, it is not surprising that we found that Instagram is the selling media that generate the most profit. Instagram was

considered as the most attractive social media, which attract more users, especially millennials, who might potentially become the customers for our businesses.

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