



## Profitability Analysis of Home-scale SMEs Based on Digital Marketing Media

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**Abstract:** Home-scale business or doing business from home by family members is one choice to sustain people's economy during the covid pandemic. With the advance of digital technologies, these home-scale businesses should be performed through digital platforms or social media. With proper utilisation, social media can increase the profits of these businesses. The purpose of this article is to analyse how social media can generate profit for small scale businesses. The data were obtained from the sales reports of three home-scale businesses in Jakarta, which specialized in selling traditional snacks. From the data, we analyzed the profit earned from each of the social media used (*Instagram, Facebook, WhatsApp, and Word of Mouth*) to find out which media generated the most profit for their business. We found that the highest profit for home scale business came from Instagram because promotion through Instagram resulted in the highest number of items sold. The findings signify that using the right social media can generate maximum profit. However, the use of social media as digital marketing tool should depend on the habits and control of the business owner over the media.

**Keywords:** Profitability, home-scale business, SMEs, digital marketing, social media

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## 1. Introduction

Corona virus was first detected in Indonesia in March 2020. Up to October 2021, 4.24 million have been contracted, and 143 thousand have died because of this virus. In attempt to contain the spreading of the virus, Indonesian government have implemented several regulations, such as PSBB (*pembatasan sosial berskala besar*) or large-scale social



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restrictions, now it is called PPKM (*pemberlakuan pembatasan kegiatan masyarakat*) or the implementation of restrictions on community activities. These measures were taken to replace total lockdown as dictated in many other countries. Basically, this regulation restricts peoples' activities in all sectors, such as education, economy, health, and many others. In effect, the regulation has caused many companies to close their business due to losses or diminishing customers. In particular, the business actors of Micro Small Medium Enterprise (MSME) or popularly known as UMKM (*usaha mikro kecil dan menengah*) were hit the worst. They were not allowed to carry on their businesses for some time as the customers were not allowed to eat onsite.

The Ministry of Manpower (Kemnaker) as of April 7, 2020, reported that 39,977 companies in the formal sector chose to lay off and discharge their workers. Thus, in total, 1,010,579 workers were unemployed. In detail, 873,090 workers from 17,224 companies were laid off, while 137,489 workers were laid off from 22,753 companies (Kompas, 2021)

Being unemployed and the inability to earn money during the pandemic time has inspired some people, especially housewives to start home-scale businesses, especially in residential area. They are selling health equipment, accessories, food, drinks, and environmental hygiene equipment and others. One of the most popular items sold by the home-scale business owners are traditional snacks or popularly known as “jajan pasar”. Selling traditional snack does not require large capital or large production site as it can be done from home.

Home-scale businesses will become the beginning of UMKM (*Usaha Mikro Kecil Menengah*) or SME (*Small Micro Medium Enterprise*). In Indonesia, UMKM is considered as an effective way to reduce poverty and unemployment (Setiawati & Hermawan, 2018). Therefore, the government fully supported the establishment of UMKM to ease the burden of the people during the pandemic.

One of the supports was by providing digital infrastructure for the business actors. Since, during the pandemic the direct people interaction was limited, most of the business activities should be done through digital platform, or through online media. Online media has become indispensable for buying and selling transaction, 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 (CNN, 2020).

Among the home-scale business owners, especially those owned by housewives, social media applications such as Facebook or Instagram are among the popular digital platforms that can help them doing business. Through social media, all their business activities can be done, such as promoting, selling, or buying. Promoting through social media is the most important one because it can ensure that the customers see the products and buy them.





Social media marketing is also called digital marketing is an important factor that is currently used as a pillar of product or service promotion aimed at reaching customers. Digital marketing is defined digital based marketing of products or service to reach consumers widely on media such as television, radio, mobile devices until the internet, where the media will provide infographics about various products marketed by the company, especially the emphasis on the brand of a product or service (Oktaviani & Rustandi, 2018). Similarly, Christina, Feni, Roselina (2019) defined digital marketing as a tool for reaching marketing target through digital technology application including desktop, cellular phone, tablet, and other digital platforms.

Marketing through social media has the purpose of generating maximum profits for the business owners. Profits, on the other hand, are used to measure the success of a company in its business activities. A profit will be achieved if sales revenue exceeds the cost of the products. The increase in profit, of course, begins with an increase in sales compared to the costs incurred. Profits are used by a company to add its capital, pay its debts, and develop its business and other things.

To get maximum profit, SME business owners have to carefully choose the appropriate social media that may increase their sales. The right social media will make the products, goods, or service of the SMEs better known in the community (Bagas & Irianto, 2015). Social media can also be used to communicate, find customers, and sell the products (Anugrah, 2020). Moreover, loyal customers can be attracted to repeat purchase and recommend others to buy the same products (Kotler & Armstrong, 2012). In addition, social media enable business owners to increase market share by providing venues for promotion and showcasing their products.

The most prominent social media that are used by home-scale business owners in Indonesia are Facebook, Instagram, Whatsapp, and Word of Mouth (WOM). Compared to other traditional marketing communication channels, social media offers significant advantages, such as reaching more potential customers and establishing direct interaction with their target market in a cost-effective way (Gumus & Kutahyali, 2017). More potential customers can be attained if business owners choose the right social media that has wider viewership. In turn, more potential customers will generate more profits for the business owners. Therefore, the use of the appropriate social media will influence the profit generation of SME business.

In this paper, we will examine the relationship between social media marketing and the profit generation. Therefore, we formulate two research questions:

1. How are home-scale business profits generated based on the social media used?
2. Which type of social media generate the most profit for home-scale business?

## 2. Literature Review



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### *Digital Marketing through Social Media*

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. It is also defined as a tool for reaching marketing target through digital technology applications (Christina, Fenni & Roselina, 2019). In the same vein, digital marketing is also defined as a combination of market knowledge and information technology aimed at expanding and increasing target consumers larger than conventional marketing function (Prasetyo, Famimatul & Mustaqim, 2020). Digital marketing can be categorized based on its type into 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.

Among the mentioned digital marketing tools, social media networks (SNS) are particularly widely chosen by Indonesian SMEs for marketing and selling their products. Social media enables business owners to communicate with the customers through comments, suggestions, and responses. The comments, criticisms and suggestions submitted by customers will help SMEs actors to develop their businesses. 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 competitiveness (Anugrah, 2020).

The most popular social media that are often used for business activities are Instagram, Facebook, and Twitter. Through Instagram, business actors can display interesting images/photos and videos to promote their products. The interface of Instagram enables users to find eye-catching pictures. Similarly, in Facebook, users can display images accompanied with quite a long text. On the contrary, through Twitter, users can post texts which are limited to 280 characters. Pictures or videos can also be attached in this platform.

The choice of which social media for doing business activities will depend on the SMEs' familiarity with the media and the potential sales generated by certain media. Due to popularity and interface, some social media might be reaching more viewers than the other social network sites. Consequently, the higher number of viewers will affect the possibility of those viewers become potential customers. So, the higher number of potential customers might generate more sales for the SMEs, and then more profit can be expected.

Besides through social media networks, word of mouth marketing (WOMM) is also common. This type of marketing is done by the customers themselves by transforming information about a product from one customer to another, either directly or indirectly (Febrian & Fadly, 2021). In other words, WOM is a type of marketing through customer reference. However, in this digital era, WOM is also done electronically by means of SMS or text messages or by direct phone calls. That is why, WOM is treated as separate type of digital marketing in this study.

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### *Calculation of profit*

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

There are two types of profit, i.e., 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. When gross profit is calculated, some elements such as taxes, administration, selling costs, and other operating costs are not included. On the contrary, 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.

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. To run their business, SME should calculate their production cost accurately (Karana, Safri & Muhammad, 2014). Because by doing correct calculation, the profit gained by their business will be guaranteed, and eventually they can get good profit margin from their businesses

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 the percentage of sales that 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 of a 20% profit margin for current year, it means that it had profit of Rp 0.20 for each 1 rupiah of sales generated. This can be illustrated as follows: if a salesperson obtained the amount sales of one million rupiah, with a profit margin of 20%, the profit from the net sale is worth 200 thousand rupiah (Satriani, et al., 2021; Kieso, 2018).

Profit margin can be calculated using the following formula:

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

### **3. Method**

We chose three home-scale business owners as the participants for this research. They are Dewi's Kitchen, Donat Nikmat and Vianes Cake, which are located in Jakarta and Bogor. They are selling traditional snacks such as donuts, spring rolls, dimsum, etc. they can be categorized can be categorized as micro enterprises due to their turnover/ sales. These businesses use four types of selling media, i.e., Instagram, Facebook, Whatsapp, and WOM. We obtained the sales records and the production costs for four-month period (from February to May 2021) and used these records as our data. These data were then calculated and







analyzed to determine the profit generation produced by different social media. The results are presented in graphs and diagrams.

#### 4. Results and Discussion

The results will be displayed in charts and tables. Table 1 shows the production of profit based on the number of items sold through each social media for each business.

**Table 1.** Production of Profit based on items sold

Selling media	Whats App (WA)	Profit in thousands	Insta gram (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	6.227,3	6562	13.092,9	282	359,8	1981	2.357,8
%	(37%)	(28%)	(47%)	(59%)	(2%)	(2%)	(14%)	(11%)

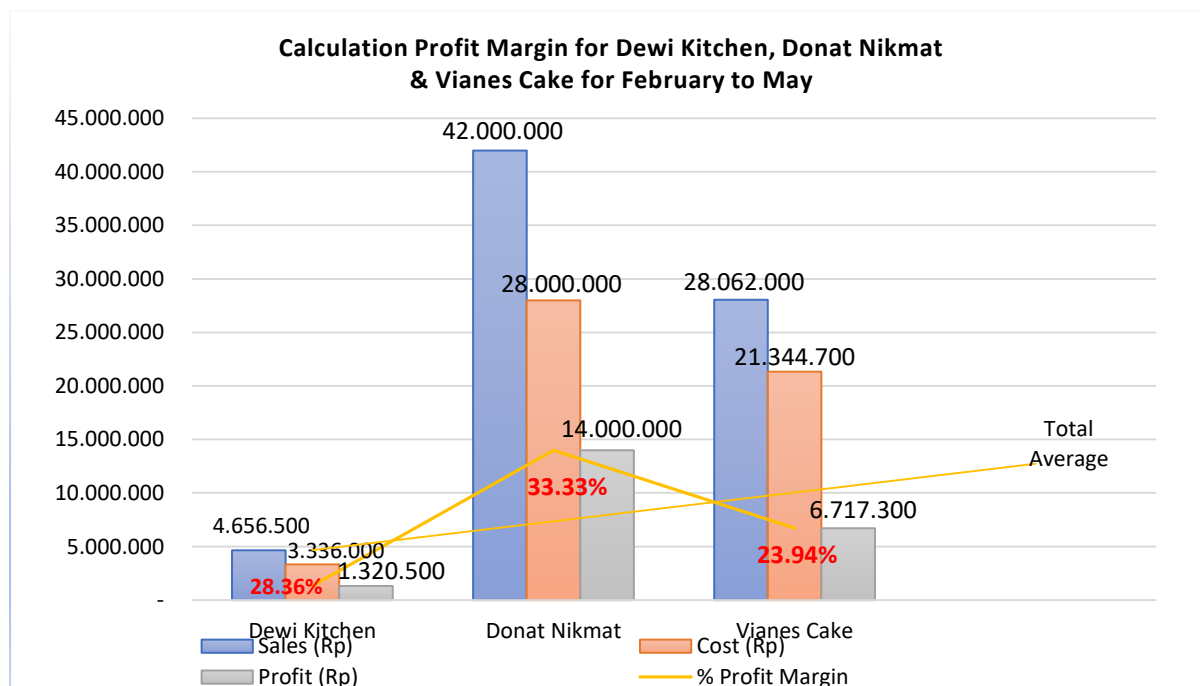
In table 1, we can see that Instagram media produced the highest sales for three business. From the Instagram, the business owners were able to sell 6562 items or around 47%. The second one was from Whatsapp media, where they can sell as much as 5188 items or 37%. The third one was taken from Word of Mouth which produced 1981 items or 14%. The last one was gotten from Facebook, which can only sell 282 items or only 2%.

Based on the number of products sold, we can also see that the profits for each media differ. The Instagram, naturally, produced the highest profit by 59%. The second highest profit was produced by Whatsapp by 28%. The next one was Word of mouth by 11% and finally Facebook by 2%. The discrepancy between the number of items sold and the amount of profits occurred because there were different types of items sold and different profit margin





for each type. For example, the profit margin for donut is 20%, while the profit for ‘dimsum’ is 15%.



**Figure 1.** Profit and profit margin for each business

In Figure 1, Donat Nikmat achieved the highest profit of Rp. 14.000.000, while Vianes Cake gained the profit of Rp. 6.717.300, and Dewi’s Kitchen only got Rp. 1.320.500. The calculation of profit margin showed Donat Nikmat took a 33.33% profit margin for its products, thus it got the highest profit. Meanwhile, Dewi’s Kitchen got 28.36% profit margin and the margin of Vianes cake was 23.94%. In total, the average profit margin for all businesses was 28.54%.

The amount of profits produced by each business depend on the social media used for marketing their product. The home-scale businesses in this study used four kinds of social media platform to sell their products. These social media are Whatsapp, Instagram, Facebook, and WOM. Table 2 shows the profit generation by each media.



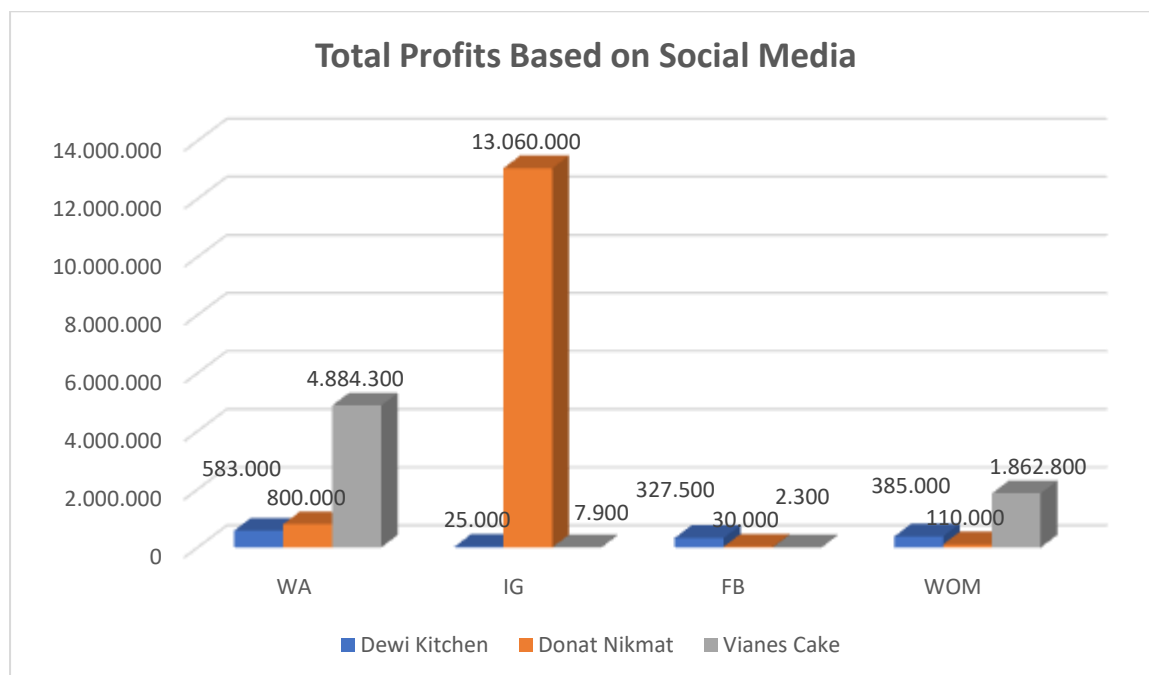


Chart 1. Home-scale business profits by social media

The above chart shows the profit gained by each business through their social media usage. By using WA, Vianes Cake gained the most profit, followed by Donat Nikmat and Dewi Kitchen. By Instagram, Donat Nikmat got the highest profit, followed by Dewi Kitchen and Vianes Cake. FB produced the lowest profit for the three businesses, even though Dewi Kitchen still got the highest profit. The last one, WOM produced highest profit for Vianes Cake, then for Dewi Kitchen and last for Donat Nikmat.

In total, the highest profit was gained through Instagram media by 59%, followed by Whatsapp by 28%, then by WOM (11%) and finally through Facebook by 2%. The results showed that selling through social media can produce maximum profits for businesses, especially for SMEs or in this case home-scale business. Overall, using social media for doing and growing business have been recognized and acknowledged by small-scale businesses. 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. Setiawati and Widyartati (2017) 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 Donat Nikmat 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. Dewi, Listyowati & Napitupulu (2020) mention that Instagram users are mostly millennials who are active in social media and proficient in doing anything online.

## 5. Conclusion

Social media is necessary for doing business in this technological era to stay afloat in difficult era, especially during the Covid-19 pandemic. When 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, thus increasing the profits of the business.

In this study, we analysed the profits attained by three home-scale businesses (Dewi Kitchen, Donat Nikmat and Vianes Cake) based on their social media use. The results showed different social media produced different profits for each business. For Dewi Kitchen, the highest profit was gained from WA, while for Donat Nikmat, 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 profits was generated by Instagram, WA, WOM, and FB.

Instagram is the social media that generates the highest profit because it engenders the most sales. This proved that Instagram has higher reachability which in turns become potential customers for the business. However, this finding does not rule out the use of other social media for business activities. As long as business owners can maximise the use of social media for promoting their business, they can get profit from other social media as well.

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