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The Impact of Factory-to-Costumer Business Model on MSMEs in Indonesia: An Islamic Business Ethics Perspective on Temu Application

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ABSTRAK

Transformasi digital telah melahirkan model bisnis baru seperti *Factory to Customer* yang diterapkan oleh aplikasi Temu, di mana konsumen dapat membeli produk langsung dari produsen tanpa melalui perantara. Fenomena ini menimbulkan kontroversi di Indonesia karena mengancam eksistensi Usaha Mikro, Kecil, dan Menengah (UMKM) lokal. Penelitian ini bertujuan untuk menganalisis dampak model bisnis *Factory to Customer* terhadap keberlangsungan UMKM di Indonesia ditinjau dari perspektif etika bisnis Islam. Penelitian ini menggunakan metode deskriptif dengan pendekatan kualitatif. Populasi dalam penelitian ini adalah dokumen dan data ilmiah, yang dikumpulkan dengan teknik *purposive sampling* dari berbagai sumber berupa jurnal, artikel, dan buku yang relevan. Teknik analisis data dilakukan dengan mengelompokkan temuan, membandingkan literatur, dan merumuskan sintesis. Hasil penelitian menemukan bahwa praktik bisnis F2C yang diklaim efisien dan menguntungkan, bertentangan dengan prinsip etika bisnis Islam, khususnya prinsip keadilan *(adl)*, transparansi *(bayan)*, dan ketidakpastian *(gharar)*. Praktik bisnis F2C berpotensi menimbulkan persaingan yang tidak adil dan mengganggu keseimbangan pasar. Penelitian ini memberikan kontribusi baru dalam wacana ekonomi Islam dengan menyoroti pentingnya regulasi yang adil dan peran pemerintah dalam mengawasi praktik bisnis digital. Implikasi dari penelitian ini adalah perlunya penguatan regulasi nasional yang berbasis nilai-nilai etika Islam untuk menjaga keberlanjutan UMKM lokal dalam ekosistem bisnis digital yang terus berkembang

Kata kunci: Etika bisnis Islam; *Model factory to customer*; UMKM lokal; Aplikasi Temu

ABSTRACT

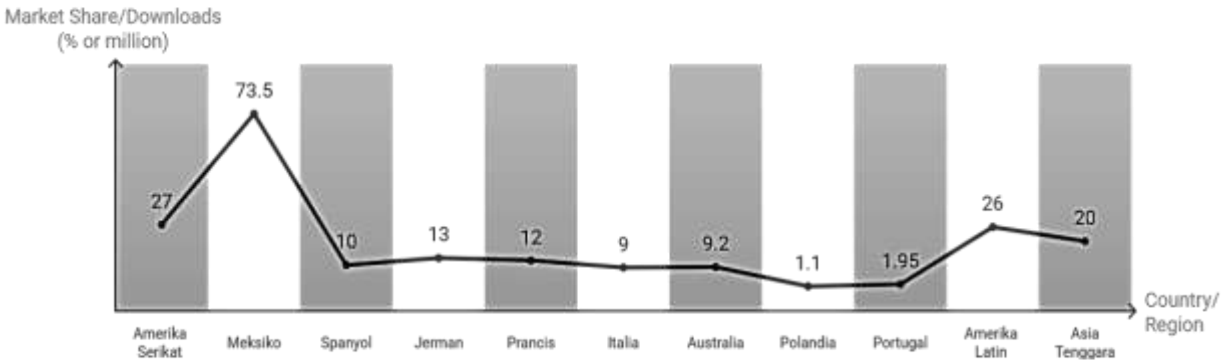
This study investigated the impact of the factory-to-customer (F2C) business model, implemented by the Temu application, on the sustainability of local Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. The F2C model allows consumers to buy products directly from manufacturers without intermediaries. Although it offers lower prices for consumers, it raises serious concerns for local businesses that struggle to compete with imported goods. This research uses a descriptive method with a qualitative approach. Relevant journal articles, books, and reports were selected through purposive sampling. The collected data were analyzed by comparing sources and identifying key ethical and economic issues. The findings indicate that F2C business practices, purported to be highly efficient and lucrative, contravene Islamic business ethics, specifically justice (adl), transparency (bayan), and the prohibition of uncertainty (gharar). These practices have the potential to engender inequitable competition and disrupt market equilibrium. This research makes a novel contribution to the Islamic economic discourse by underscoring the significance of fair regulation and the role of the government in overseeing digital business practices. The implications of this research underscore the necessity to fortify national regulations grounded in Islamic ethical values, thereby ensuring the sustainability of local MSMEs within the expanding digital business ecosystem.

Keywords*: Islamic business ethics; Factory- to-customer model; Local MSMEs; Temu application*

INTRODUCTION

The business sector is a significant source of innovation that can contribute to the economy's growth and positive image. The state has a vested interest in fostering innovation and competitiveness to achieve its economic development goals and enhance its revenue. The government's commitment to fostering the business sector is evident in the statement made by Rudy Deputy IV Kemenko RI in a press release on the ekon.go.id page, as reported by Limanseto (2022), who stated, "The President has expressed his desire for 30 million MSMEs to adopt digital transformation by the year 2024. This objective is being pursued through the implementation of a cluster or center system, with the anticipated outcome being not only the entry of these entities into the digital platform but also their transformation into global and export-oriented entities. This finding aligns with the conclusions of Daulay (2023), who in their research posited that enhancing the quality of MSMEs is pivotal for ensuring the effective functioning of their business operations, thereby facilitating their growth and development in accordance with the objectives of the government and the interests of the business owners.

Business model transformation is regarded as a significant evolutionary development within the disciplines of economics and business, closely associated with the impact of digital advancements in contemporary society. In this environment, every individual has the capacity to access various resources and purposes necessary for their survival. In the contemporary economic landscape, digital technology plays an important role in facilitating transactions, especially through accessible online platforms that transcend various demographic and economic boundaries. This application offers reduced fees. Temu employs technological and data-analytical capabilities to discern user preferences and enhance the efficacy of its product offerings. Temu's strategic investments in technological innovation and artificial intelligence (AI)-based backup systems have the potential to enhance operational efficiency and optimize the user experience. The global market development strategy, with local cultural adjustments, has been identified as a significant factor in expanding Temu's reach to new market countries, including Malaysia by Arifin (2024). The F2C business model employed by the Temu application has garnered attention from various countries, which have recognized its potential benefits and efficiency. The following grap 1 includes some of the countries that have downloaded the Temu application:



Graph 1. Countries Have Downloaded the Temu Application
Source: data was processed by the author

Based on the presented graph, it is evident that the United States constitutes the largest market for the Temu application, accounting for approximately 27% of global downloads. Mexico follows with around 73.5 million downloads, indicating Temu’s strong presence in the North American region. In Europe, countries such as Germany (13 million), France (12 million), and Spain (10 million) exhibit moderate adoption levels compared to their American counterparts. In the Asia-Pacific region, Australia records approximately 9.2 million downloads, while Southeast Asia collectively contributes around 20 million downloads, reflecting significant growth potential, though still constrained by regulatory issues in countries such as Indonesia. Latin America emerges as another notable region, with around 26 million downloads, signifying Temu’s successful entry into emerging markets. On the other hand, countries like Poland (1.1 million) and Portugal (1.95 million) demonstrate relatively limited market penetration. The global distribution of Temu downloads is heavy. This pattern underscores Temu’s aggressive expansion strategy, particularly targeting emerging markets and regions with rapidly growing digital consumer bases.

Temu currently has a C rating with the Better Business Bureau (BBB), as well as an average customer rating of 1.4 stars out of 5, though this rating is based on only 20 reviews. (Note that complaints are separate from reviews and are not factored into the BBB's official rating.) According to McGovern at the BBB, it is unusual for a new company to receive so many complaints in such a short period of time. He noted that Temu has acknowledged and responded to every complaint posted on the BBB website by Chow (2022). However, many of those complaints remain unresolved, suggesting that Temu has not been able to competently and responsively address consumer complaints.

This platform, originating from China, operates on a direct model, selling products from factories to customers without the involvement of intermediaries or distributors. This phenomenon has emerged as a contentious issue, giving rise to debates among e-commerce stakeholders and governmental entities. This is certainly troubling for sellers or MSMEs because it presents a business model that can have a negative impact on the sustainability of local businesses. The Factory-to-Customer (F2C) business model offers several advantages, including the ability to maintain a competitive price without incurring distributor costs. Conversely, local products must demonstrate the capacity to compete with imported products. The United States is a notable proponent of this business model, as evidenced by a Forbes article from the United States that states, "Browze's F2C model eliminates superfluous steps and reduces costs, enabling Browze to maintain competitive prices for both businesses and consumers" by Rosenzweig (2021). Browze's F2C model is characterized by the elimination of superfluous steps, leading to a reduction in costs. This, in turn, enables Browse to maintain competitive pricing for both businesses and consumers.

Despite the substantial support from developed countries, F2C faces significant criticism. One critique from Hidayatullah (2024) asserts that the F2C business model will result in unfavorable competitive conditions for e-commerce sellers and small traders due to the substantial price difference between goods sold. This business model has given rise to concerns regarding the quality of goods sold, data security, and intellectual property violations, as well as various cases stemming from buying and selling activities on this platform. As Li (2023) research indicates, numerous reviews have expressed discontent with the quality of the website, noting its need to improve in order to compete with other platforms. Consequently, Temu experienced a decline in its customer base, as it caters to those who prioritize the quality of the project over its price.

Based on the above phenomenon, the impact of the F2C business model on the sustainability of the local sector is problematic, especially in Indonesia, where high production costs will not be commensurate with the price of the product. Price is an important factor for consumers when making purchases. This results in unhealthy competition between the local sector and imported products. Additionally, it can be predicted that the local business sector, the backbone of the national economy, will go out of business. This is, of course, a serious problem for the government. Furthermore, consumers may receive defective products that do not sell well in China. This argument aligns with the statement of Herfan Brilianto Mursabdo, the Assistant Deputy for Cooperatives and MSMEs of the Coordinating Ministry for Economic Affairs, who said that the state needs to anticipate the presence of Temu in Indonesia because this platform is already operating in several countries by Anggela (2024).

In the aforementioned problems, Islam views the absence of ethical conduct in business practices, as leading to financial losses for various stakeholders, including producers, distributors, consumers, and the government. Islam has established a framework for business ethics, with the objective of ensuring that no party is harmed during the process of buying and selling. In essence, muamalah activities can be executed; however, the presence of prohibited transactions, such as usury, gharar, and maisir, renders the sale and purchase agreement invalid by Viva & Huda (2023). This perspective aligns with the viewpoint articulated by Meliza (2023) which posits that the ethical principles governing economic activities are embedded within the tenets of the Qur'an. Specifically, this perspective emphasizes the prohibition of conducting business transactions through deceitful means, with the fundamental principle being the sanctity of transparency and the consent of both parties involved in the transaction. It further stipulates the proscription of usury, the establishment of a regulatory apparatus, and the promotion of *tawazun* values in both economic and social spheres. The prohibition of deceit and the sanctity of transparency are also emphasized.

The implementation of F2C business practices has the potential to disrupt the proper economic flow, resulting in undirected economic activities. This phenomenon not only affects the business sector but also has ramifications for the government. The author thus expounds on the significance of Islamic business ethics in confronting the challenges posed by the F2C business model for local MSMEs in Indonesia. Researchers are interested in studying this issue with the aim of analyzing the impact of the F2C business model on MSMEs in Indonesia through a review of Islamic business ethics, in order to determine the suitability or potential violation of the basic principles of business ethics.

METHOD

This research uses a descriptive method with a qualitative approach This approach is considered appropriate given the topic being studied. The use of the Factory-to-Customer (F2C) business model in the Temu application is still relatively new and has not been widely explained through primary data. This literature study approach allows researchers to integrate and interpret various relevant conceptual and empirical findings, in order to examine the issue from the perspective of Islamic business ethics. The research process began with the identification and selection of literature sources. The literature collected came from scientific journal articles. The search keywords used included: "F2C business," "Temu application," "e-commerce," "Islamic business ethics," and "MSMEs in Indonesia." Once collected, the references obtained were then systematically categorized and thematically analyzed. The main variables retrieved include the definition of the F2C model, the operational characteristics of the Temu app, ethical issues from an Islamic perspective, and the actual or potential impact on local MSMEs. Through this methodological process, the literature study provides a strong basis for compiling the results and discussion and enables an in-depth analysis of the ethical implications of the F2C model and its impact on the sustainability of MSMEs in Indonesia.

Analytical Framework

Picture 1. Analytical Framework

This research uses an analytical framework consisting of three main stages to evaluate F2C business practices on the Temu application from the perspective of Islamic business ethics. The first stage begins with the identification of F2C business practices, namely the direct distribution model from producers to consumers without intermediaries, which is massively implemented by Temu and has an impact on the local MSME ecosystem in Indonesia. The second stage is an ethical evaluation based on Islamic principles, such as justice *('adl)*, honesty *(shidq)*, transparency *(bayan)*, and the prohibition of *gharar* and exploitation. In this stage, F2C practices are analyzed to determine whether they are in accordance with or contradictory to the basic values in Ramallah. The final stage is an assessment of the impact on the sustainability of MSMEs, by looking at the extent to which the business model creates market inequality, threatens the existence of local businesses, and demands sharia values-based policy intervention. This framework guides the flow of analysis in this study to be systematic and focused on the ethical and structural contributions of the digital business phenomenon.

RESULTS AND DISCUSSION

F2C business model adopted by the Temu application is one of the innovations in the global digital ecosystem that allows manufacturers to sell products directly to end consumers without going through traditional distribution channels. In economic theory, this concept provides advantages in the form of cost efficiency, transaction speed, and lower prices for consumers. However, this innovation has backfired in developing countries such as Indonesia, especially because of its implications for the sustainability of MSMEs. This study aims to analyze the impact of the factory-to-customer business model on the sustainability of MSMEs in Indonesia from the perspective of Islamic business ethics.

Islamic Business Ethics Review of the F2C Business Model

In the Islamic economic system, business activities are not solely evaluated based on profit and loss; they are also assessed in accordance with Sharia values, which prioritize justice, honesty, social responsibility, and blessings. It is imperative that all economic activities prioritize sustainability, ensuring that benefits accrue not only to business entities but also to society and the nation as a whole. Islamic perspectives on business, however, diverge from this conventional approach by advocating for a more comprehensive approach to business goals, one that encompasses not only the pursuit of profit but also considerations of other factors by Lailatul (2021)

The tenets of Islamic business ethics, as articulated by Meliza (2023), encompass the following principles: The prohibition of usury, *gharar* (uncertainty), and *maysir* (speculation) are paramount. Furthermore, transparency and honesty in transactions are mandatory, as is the protection of consumers and producers. The principles of justice and equitable distribution of benefits must be upheld, and the public good *(maslahah 'ammah)* is to be maintained.

The F2C business model is a direct-distribution approach from producers to consumers that eliminates intermediaries. This model has been shown to offer several advantages, including enhanced efficiency, more competitive pricing, and improved quality control. However, when evaluated from the vantage point of Sharia business ethics, certain components of the F2C model have the potential to result in deviations from Sharia principles, contingent upon the manner in which it is executed. In the context of Islamic business ethics, principles such as fairness *('adl)*, honesty *(sidq)*, transparency *(bayan)*, absence of deception *(gharar)*, and the prohibition of usury and exploitation serve as foundational tenets for any economic activity. In the Quran, Allah emphasizes that business transactions must be carried out fairly and on the basis of mutual consent, which implicitly includes clarity of information, legal ownership, and transparency in the contract by Anurogo (2023). It is explained in QS An- Nisa: 29-30 below:

Meaning: [29-30] O Believers, do not devour one another's property by unlawful ways; (instead of this) do business with mutual consents; And do not kill yourselves; believe it that Allah is Compassionate to you. We shall throw into the Fire the one who commits such acts of aggression and injustice, and this is very easy for Allah.

The following assertion is made on the basis of the aforementioned verse and the interpretation of Maududi (2025) that: "Unlawful *ways"* include all the ways that are against Islamic law and principles and are false and immoral. *"Business"* comprises all those transactions that are carried out for profit, benefit, etc., as in trade, commerce, industry, etc., by which one satisfies the needs of another who pays for the service rendered. *"Mutual consent"* implies that those transactions should be carried out by mutual agreement and not by coercion or fraud. *"Do not kill yourselves"* may be complementary to the preceding sentence t or may, in itself, be an independent sentence. In the first case, it would mean that the one who unlawfully devours the property of others; does in fact lead himself to his own destruction, for such an evil deed ruins the social order to such an extent that ultimately he himself cannot escape its evil consequences, and in the hereafter most surely he incurs severe punishment. In the second case, it would mean, *"Do not kill each other",* or *"Do not commit suicide".* Allah has used such comprehensive words that in the context they occur, they imply all three senses, and all these are correct. That is, *"Allah is your well-wisher and wishes you well"*: it is only His compassion that He forbids you such deeds as cause your ruin.

The subject of Islamic business ethics is of particular relevance. In the context of business transactions, it is imperative that enterprises not merely seek to maximize their own interests but also demonstrate a commitment to fostering mutually beneficial relationships that contribute to the broader economic landscape. The objective is to maximize profit, yet it is equally important to seek the pleasure and blessing of sustenance. This was bestowed by Allah SWT, the supreme creator by Lailatul (2021). The concept of business ethics in Islam emphasizes that profit orientation cannot be separated from moral and spiritual responsibility. Ideal business practices do not only focus on maximizing economic interests but also prioritize the principles of justice, mutual benefit, and the search for blessings as a form of servitude to Allah SWT. Thus, business relationships must be built fairly and mutually beneficial, in line with sharia values that emphasize the balance between the world and the hereafter.

One of the issues that arise in the F2C model is the lack of transparency of product information, especially in online transactions. Consumers often only get one-sided information from producers, without any third-party verification. This has the potential to cause the element of gharar, which is uncertainty in the contract that is prohibited in Sharia by Dusuki & Abdullah (2007). In addition, the F2C model that relies on digital e-commerce platforms is also vulnerable to the practice of selling before the goods reach the owner by the seller (dropshipping). In some cases, the manufacturer may not actually have stock or have not yet carried out the production process when receiving payment from consumers. This practice certainly touches on the sharia prohibition on buying and selling something that is not owned or does not yet exist (*bai' al-ma'dum)*. Islamic ethical principles unequivocally prohibit marketers from exploiting customers or participating in any form of dishonesty, fraud, or deception. Such unethical marketing conduct constitutes an injustice that fundamentally contradicts the core Islamic values of human brotherhood and equality, which underpin the broader Islamic ethical framework by Hassan et al., (2008). This kind of contract is not valid in fiqh muamalah, because it does not meet the requirements of ownership and clarity of the object of the transaction.

Furthermore, in F2C implementation, pricing can become an ethical issue if it does not take into account the principle of fairness. For example, producers may set prices so low that they penalize small intermediaries at the local level, which is contrary to the Islamic principles of fairness and social responsibility. In addition, the F2C business model faces the challenges and controversies of being overly dependent on cheap products from China, raising concerns about product quality, data privacy, and intellectual property infringement by Trisolvena (2024). Islam advocates a fair market mechanism without monopoly or exploitation and pays attention to the overall economic sustainability of the community, not just one-sided gains. In terms of marketing, the use of excessive advertising or promotional strategies in the F2C model can become a Sharia ethical issue if it contains manipulative elements or misleading promises.

Islamic business ethics require honesty in the promotion and prohibit *tadlis* (concealment of defects) and *gharar* (deception), which often occur in digital marketing that is not closely monitored. In Islamic economics, distribution ethics refers to the norms or ethical rules that govern the process of storing and distributing products to customers. These norms are based on Islamic principles, including the pursuit of reasonable profits, the promotion of widespread distribution, the principle of social justice, and the prohibition of ikhtikar by Syukur (2018). The author anticipates that local MSME actors will assess the challenges and advantages inherent in adopting the F2C business model and verify the alignment of business practices with Sharia principles and Sharia business ethics. The Ethical Business Practice Cycle, an ethical evaluation of the Factory-to-Consumer (F2C) model, as implemented by the Temu application, is delineated below:

Picture 2. The Cycle of Ethical Business Practices

Based on the above diagram, it can be concluded that the ethical evaluation of the Factory-to-Consumer (F2C) model, as used by the Temu app, should be done through a continuous and systematic process. This process begins with a thorough assessment of the F2C business model, specifically how it operates and reaches consumers directly from the factory. It then analyzes the impact of the model on MSMEs, especially in terms of competitiveness, sustainability, and market disruption. The next step is to ensure that the business practices are in line with the basic principles of Islamic business ethics, such as fairness, transparency, and social benefit. If ethical gaps or negative impacts are found, recommendations for improvement are made to steer the business in a more ethical and sustainable direction. This cycle confirms that ethical business practices in Islam are not static, but require continuous reflection, adjustment, and commitment to uphold moral values in every aspect of business activities.

Impact of the F2C Model on Local MSMEs

MSMEs in Indonesia play a strategic role in national economic development, including employment, economic equity, and strengthening the real sector. However, the presence of the F2C model on meet-up apps has threatened the position of local MSMEs in the economic value chain. Products from abroad, especially in China, can be produced at a very low cost due to large economies of scale, logistical efficiency, and industrial subsidies from the country of origin. This certainly cannot be matched by local MSMEs which still face chronic problems such as High production costs; Limited access to capital and technology; Weak penetration of the digital market; and Lack of logistical and infrastructure support, resulting in consequent price competitiveness in the e-commerce market.

Research by Hidayatulloh (2024) highlights that this condition creates unfair competition because MSMEs do not compete on a level playing field. If not intervened, this can lead to: The erosion of the local MSME market; a Decrease in community income; Potential layoffs and unemployment; and Market dependence on cheap imported goods. Moreover, F2C products that enter the Indonesian market are often overstocked, rejected quality, or failed products in the country of origin, so prices can be reduced to a minimum without paying attention to business continuity in the destination country. However, the impact of the strategy of using the F2C business model on local MSMEs can be reviewed from several aspects which can be an important note for the government to build competitive and superior MSMEs, including:

Cost Efficiency and Profit Margin Improvement

The F2C business model allows producers to sell directly to consumers without intermediaries. This will certainly reduce distribution costs which have an impact on increasing profit margins that can provide opportunities for MSMEs to offer products at more competitive prices and increase profitability. This business model is also considered to threaten the sustainability of local MSMEs, so the Indonesian state rejects the presence of Temu by refusing Temu licenses in order to protect local MSMEs from unfair competition. Temu applications are still being debated in various countries due to rapid growth and aggressive business strategies. Temu has made a significant impact in the market by offering consumers a wide range of affordable products from around the world. Temu's foray into e-commerce has precipitated an escalation in competition, compelling other retailers to undertake a comprehensive re-evaluation of their pricing, supply chain, and customer service strategies to ensure their continued competitiveness in the market by Feng (2024).

In addition, the challenges of the F2C business model in the Temu application are quite large, especially because the e-commerce infrastructure is still developing and competition with traditional retailers is not yet established by Nabila (2025). The provision of substantial discounts and competitive pricing strategies effectively appeals to clients, thereby enabling them to accumulate credits and obtain complimentary items. It is also noteworthy that these entities are subject to the oversight of PDD Holding Inc., an organization that administers the foremost e-commerce platform in China. Temu exhibits considerable potential to become a prominent online brokerage in the United States, attributable to its association with reputable entities and the implementation of appealing marketing strategies and features (Li, 2023).

Improved Innovation and Competitiveness

Innovation in F2C business has been demonstrated to contribute positively to the growth and sustainability of MSMEs. Research indicates that business model innovation exerts a substantial influence on MSME business growth, particularly with regard to enhancing customer trust and commitment by Maharani & Yamit (2022). Innovation in the F2C business model has been shown to engender efficiency in the supply chain. Furthermore, it has been demonstrated that innovation in this model can also create new opportunities for MSMEs to adapt to changes in consumer behavior and the development of digital technology. The elimination of intermediaries enables MSME players to exhibit greater flexibility in the design of products, the establishment of competitive prices, and the cultivation of direct relationships with end consumers. Furthermore, the F2C model promotes the adoption of technologies by MSMEs, including e-commerce, cloud-based inventory management systems, and digital marketing.

These technologies are pivotal in enhancing competitiveness in the digital economy. However, the implementation of the F2C model in local MSMEs still faces a number of significant gaps. A significant challenge confronting MSME players is their limited digital literacy, which impedes the effective utilization of online platforms. Furthermore, a significant number of MSMEs lack the supporting infrastructure necessary for effective operations, including efficient logistics systems and adequate management software. The disparity in technological aptitude and resource availability among MSMEs leads to a divergence in their capacity to adopt F2C models. Conversely, the absence of technical assistance and supportive policies poses a significant challenge to the expansion of this model at the local level. Consequently, strategic interventions from the government and relevant stakeholders are imperative to bridge this gap, thereby enabling local MSMEs to not only adopt the F2C model but also optimize it to ensure sustainable enhancement of competitiveness.

Infrastructure and Regulatory Challenges

The contemporary industrial paradigm has undergone a significant transformation, marked by the dissolution of the traditional intermediary producer-distributor relationship. Contemporary factories, however, are evolving to function as direct distribution centers or markets, enabling consumers to acquire products from the very source of production. This model has the dual benefits of reducing the distribution chain and enhancing efficiency, thereby increasing profits for both producers and consumers. The research by Jiang & Li (2020) on the Shared Factory is noteworthy for its discussion of social manufacturing, which can be defined as an internet-based and service-oriented manufacturing paradigm. In this paradigm, manufacturing activities are expected to become more complex, diverse, and personalized, and factories will become more open, shared, collaborative, and flexible.

The global expansion of e-commerce platforms such as Temu and Shein has prompted.

It is incumbent upon governments to undertake a comprehensive re-evaluation of their trade policies and import regulations. In the United States, the suspension of the 'de minimis' rule for Chinese parcels has had a disruptive effect on business models that depend on duty-free imports of low-value goods. The objective of this policy change is twofold: to address trade imbalances and to protect domestic industries from unfair competition by Maspul & Putri (2025).

One of the primary obstacles to implementing the Factory-to-Consumer (F2C) model in Indonesia lies in the uneven development of e-commerce infrastructure and regulatory frameworks that have yet to fully support direct sales from producers to consumers. While the growth of e-commerce in Indonesia has shown a positive trend, significant disparities in digital infrastructure particularly in rural and underdeveloped regions continue to hinder SMEs from maximizing the potential of online distribution platforms. Limitations in reliable internet access, integrated digital payment systems, and efficient logistics remain critical barriers to the widespread adoption of the F2C model. Furthermore, existing regulations often fail to keep pace with the evolving nature of digital business models. Tax policies, trade licensing requirements, and compliance procedures are frequently perceived as complex and ambiguous by SMEs, creating additional friction in their transition to direct-to-consumer operations.

Market structure poses another challenge, as traditional retailers continue to dominate distribution channels and enjoy strong consumer loyalty. SMEs seeking to bypass intermediaries must therefore compete against established players with superior financial resources, brand recognition, and infrastructure. However, valuable lessons can be drawn from emerging platform-based models such as Temu, which leverages demand aggregation to activate latent production capacities among small-scale producers. As Zhang (2025) notes, Temu's model illustrates how internal circulation priorities can be met while simultaneously expanding market reach beyond domestic boundaries. This approach enhances production and logistical efficiency and allows producers to retain a greater share of profits by eliminating intermediary margins. Such a strategy offers promising insights for policymakers and industry stakeholders in Indonesia, highlighting the need to design more inclusive infrastructure and regulatory frameworks that empower local SMEs to effectively adopt and benefit from the F2C model.

Threats from Global E-Commerce Platforms

The rise of global e-commerce platforms such as Temu, which operate using the F2C model, has raised significant concerns for local SMEs in Indonesia. The influx of ultra-low-priced imported goods into the domestic market can undermine the competitiveness of local businesses, especially when such pricing strategies border on predatory pricing practices. These practices pose a real threat to the survival of small producers, potentially triggering large-scale layoffs across the SME sector and adjacent industries such as logistics, packaging, and raw material suppliers. The ability of platforms like Temu to operate at scale and absorb short-term losses in order to gain market share places local enterprises many of which lack comparable capital or logistical resources at a severe disadvantage. Moreover, despite its aggressive market penetration, Temu has faced persistent criticism regarding product quality standards.

Numerous user reviews highlight dissatisfaction with the platform's product listings and quality assurance, suggesting that it often lags behind more established competitors in terms of customer experience and reliability. According to Li (2023), this has led to a noticeable decline in Temu's customer base, particularly among consumers who prioritize product quality over low prices. This dynamic creates a complex dual threat for local SMEs: while they struggle to compete on price with global platforms, they must also contend with fluctuating consumer expectations shaped by inconsistent experiences on those platforms. As such, the unregulated expansion of global F2C platforms into local markets not only disrupts economic stability but may also erode consumer trust in the broader digital marketplace. Addressing these issues requires a nuanced policy response that balances market openness with protective measures to safeguard the sustainability of domestic SMEs.

The Importance of Technology Adoption and Digitalization

Temu's rapid ascent in the global e-commerce landscape is predicated on a series of factors. This technological innovation has had a profound impact on the dynamics of online retail. At the core of the strategy is the integration of sophisticated algorithms and artificial intelligence (AI) to personalize the shopping experience, thereby enhancing user engagement and retention by Maspul & Putri (2025). The adoption of digital technologies has emerged as a crucial determinant of competitiveness for SMEs operating in the Factory-to-Consumer (F2C) era. In an increasingly interconnected marketplace, digitalization enables SMEs to streamline operations, enhance customer engagement, and access wider markets beyond their immediate geographical boundaries. By leveraging e-commerce platforms, digital payment systems, and online marketing tools, SMEs can reduce transaction costs, improve inventory management, and respond more effectively to consumer demand. As highlighted by Fitrisari (2021), business digitalization contributes positively to the sustainability of SMEs by expanding market reach and increasing operational efficiency both of which are essential for long-term resilience and growth.

However, the adoption of digital tools among SMEs is not without challenges. Many local enterprises face barriers such as limited digital literacy, lack of access to affordable technology, and insufficient training in digital business practices. Without targeted support, these gaps can widen the digital divide and leave a significant portion of SMEs unable to participate in the F2C ecosystem effectively. Thus, it is imperative for policymakers and supporting institutions to facilitate digital inclusion through infrastructure development, capacity-building programs, and financial incentives aimed at accelerating digital transformation. Promoting a culture of innovation and adaptability among SMEs will not only enhance their competitiveness but also strengthen the overall economic fabric in the face of rapid global shifts toward direct-to-consumer commerce models.

CONCLUSION

This study is concerned with the research objective of analyzing the impact of the Factory-to-Customer (F2C) business model on the sustainability of Indonesian Micro, Small, and Medium Enterprises (MSMEs) through the lens of Islamic business ethics. It also examines the alignment or potential violation of business ethics principles. The findings indicate that while the F2C model, as exemplified by the Temu platform, offers economic benefits such as cost efficiency, it concomitantly poses ethical and structural threats to local MSMEs. The phenomenon under scrutiny has been shown to encourage unfair competition, reduce the role of traditional intermediaries, and often sacrifice transparency, product quality, and market equity. These characteristics contradict Islamic ethical principles of justice (adl), transparency (bayan), and the prohibition of uncertainty (gharar). Moreover, these policies have been shown to accelerate economic marginalization by favoring inexpensive imported goods over domestically produced goods. This has the effect of disrupting market balance and jeopardizing national economic sovereignty.

Given these conclusions, it is imperative that policymakers and regulators take proactive steps to safeguard the interests of local MSMEs. Future policy interventions should prioritize the development of an ethical regulatory framework rooted in Islamic values that not only ensures fair competition but also compels digital platforms to uphold ethical standards in marketing, pricing, and product disclosure. MSMEs should be empowered through targeted digital literacy programs, infrastructure development, and fiscal incentives that support the integration of responsible e-commerce practices. To sustain long-term economic inclusivity, a collaborative approach involving government, industry stakeholders, and Islamic economic scholars is essential. This collective effort must aim to ensure that innovation in business models does not compromise ethical responsibility or the viability of local enterprises that form the backbone of Indonesia's economy.

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