

# Capturing Competitive Advantage Through Product Innovation: Study of a Small Culinary Business

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**Abstract:** In the early phase of the Covid-19 outbreak, all aspects of life, including the culinary sector, were impacted very hard by this outbreak in addition to the existing tight competition. Many businesses were in danger of going bankrupt. However, there was a culinary brand that continued to make an expansion in Bandung, Indonesia. There are seven branches opened by this brand until 2021. Hence, it is interesting to study the phenomena. This study aims to determine the effect of product innovation on the competitive advantage of this culinary brand. Besides this, the customers' evaluation regarding product innovation and competitive advantage is revealed by this study as well. This research uses a quantitative method by surveying with the purposive sampling technique. The questionnaires were distributed to 100 customers who had made transactions more than once within the last six months before the survey began. The descriptive data analysis was carried out to investigate the customers' evaluation. It is examined that product innovation has a positive impact on the competitive advantage after a simple linear regression analysis was conducted. This result is strengthened by the t-test that shows the acceptance of the hypothesis. Moreover, the coefficient of determination test presents that the impact of product innovation on competitive advantage is 51 percent. It means that the product innovation has provided 51 percent of the information needed to predict the competitive advantage in this small culinary business. From the overall results of the descriptive analysis, the consumer assessment scores obtained fall into the medium to high category range. This result proves that the response given to the company's competitive advantage and product innovation is still quite good and positive. The result of this study is expected can inspire other culinary companies to survive their businesses during a difficult situation like the Covid-19 outbreak and to sustain for the future. Further study can compare the condition during and after the Covid-19 outbreak.

**Keywords:** product innovation, competitive advantage, culinary, small business

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## 1. Introduction

Company X is a small business that runs a restaurant that carries the concept of a franchise with a menu made from fish as the main ingredient. Even though Company X is a company that was just established in October 2019, it already has 122 branches spread throughout Indonesia. In a wider scope, culinary industry is one of the fastest-growing sectors in Indonesia. Based on data from the Creative Economy Agency of the Republic of Indonesia at the launch of Bango Culinary Heritage in 2018, it is mentioned that the culinary sector contributed 41.4 percent to the country's total contribution. The Year 2016 was the culinary highest contribution compared to the 16 other sub-sectors, according to the Creative Economy Agency. The food and beverage industry can still grow 0.22 percent in 2019 (Sindo News, 2020).

Meanwhile, Statistics Indonesia (2018) shows that the number of food and beverage providers in Indonesia has a total of 11,001 units. There are 1,794 businesses in the culinary field recorded in West Java Province. West Java Province has the second largest population of culinary businesses after Jakarta Province. This makes the West Java Province the second favourite place for visitors to do culinary tourism. In addition, nowadays it is also common for the culinary business to become one of the tourism icons in an area. Each region has its unique cuisine and this can be a draw for its taste and history. Culinary often becomes a brand that elevates an area (Media Indonesia, 2021).

A business is required to have strong competitiveness so that the business can survive and thrive. Innovation can be a source of success for a business. It takes the ability to generate new and different product ideas through innovation, as well as the courage to take risks and be optimistic about the success of the ideas initiated. Involvement in a business, especially in the culinary world, requires an innovation that can differentiate it from its competitors.

In this regard, as a newcomer to the culinary industry, especially processed fish products, Company X must also create innovations to compete in the market. At the beginning of the establishment of Company X, many people

were curious about the menu offered and were willing to wait in long queues. Many customers are willing to queue up to 2.5 hours for the fish and rice menu offered by Company X. Days after the grand opening, long lines always occur at Company X outlets from visitors who are curious about the menu offered (Detik Food, 2019).

Coupled with the Covid-19 outbreak, Company X increasingly requires creating something unique to at least maintain the position it has achieved. It was recorded that around 30 million micro, small, and medium enterprises (MSMEs) went out of business due to the implementation of the Covid-19 outbreak's area restrictions. Based on the data of the Association of Indonesian Micro, Small and Medium Enterprises, there are approximately 34 million micro-enterprises in 2020, a decrease of more than 50 percent from around 64.7 million businesses in 2019. This has also caused more than 7 million MSME workers to lose their jobs (CNN Indonesia, 2021). However, this contrasts with Company X. In 2020-2021 when many restaurants are threatened with bankruptcy and have even gone bankrupt, Company X continues to open seven branches, including relocation, in Bandung City. Of course, this needs to be investigated further to find out if there is an influence of Company X's innovation on competitive advantage.

## **2. Literature study**

According to Pradeep, Appel, & Sthanunathan (2018:123), the process of product innovation requires a research team to continuously do the update things and then visit trending places to determine the consumers' needs. Later, the innovator examines the data that has been collected and then exchanges ideas to determine the product innovations that might be interesting. The concept that has been formed is then presented to the consumer group. Then potential consumers will be asked to choose the most interesting idea, then it will be used in the future.

Product innovation based on Kotler & Keller (2016: 454-458) is defined as the result of different processes that match and influence each other. By innovating products, it is hoped that buyers can make better purchasing decisions. There are four dimensions of product innovation, namely:

- 1. New products for the world. It is done by focusing on incremental innovation, entering new markets through product customization for new consumers, and utilizing a variety of core products to always be one step ahead of the market.
- 2. Improvement of the existing product. It means the products that offer greater or better value performance and can replace existing products, including new products whose performance is improved.
- 3. New product lines i.e., new products that may make the company enter an established market for the first time, by using a new product line so that consumers can make product choices.
- 5. Addition to an existing product line. It is a new product that adds to or complements a product line from an established company so that the product is more diverse and can provide many choices.

As described by Bharadwaj, Varadarajan, & Fahy (1993: 83-84), unique skills and strengths are seen as a source of competitive advantage. If there is no uniqueness, the company's ability to develop skills as well as to apply strategies based on its human resources will be difficult to catch up with its competitors. While unique resources or assets are resources or assets that are needed by the company to carry out a competitive strategy. These two resources are needed to support the creation of a low-cost business and differentiate it from the rest of the field. Competitive advantage in this study is measured using five indicators from Bharadwaj, Varadarajan, & Fahy (1993) namely: product uniqueness, difficulty to be imitated, rare to find, competitive price, and difficulty to be replaced.

In addition, according to Diderich (2020: 184), competitive advantage in a company can be demonstrated through differentiation such as having uniqueness in one or more aspects. It can be seen where the same product is not offered by another company and results from special abilities, unique technologies, and access to resources or patents. The customer perspective is very important in defining competitive advantage based on differentiation because the differentiation that is seen explicitly or implicitly can have an impact on customer decisions. Innovative firms usually compete by demonstrating a distinct competitive advantage. Some previous studies focus on innovation and competitive aspects. From a study by Lestari, Budiarto, & Setiawan (2020) on decorative umbrella craft products, the results show that product innovation partially has a significant effect of 18.49 percent on competitive advantage. Furthermore, product quality partially has a significant effect of 20.25

percent on competitive advantage. Meanwhile, simultaneously, product innovation and product quality have an effect of 33.64 percent on competitive advantage.

A study by Taan (2017), which examines handicraft products, shows product and price innovation, partially, have a significant influence on competitive advantage. Furthermore, both simultaneously have a significant influence on competitive advantage. A study by Ferreira, Coelho, & Moutinho (2020) shows that dynamic ability, creativity, and innovation ability significantly and positively affect company performance and competitive advantage with entrepreneurial orientation as a moderating variable. Another study by Ferreira, Cardim, & Branco (2018) shows the positive influence of dynamic capabilities on competitive advantage and company performance, through moderating marketing capabilities and innovation capabilities. Hussain et al.'s (2020) research in the hospitality industry shows that sustainable brand equity and marketing innovation have a positive influence on market performance by intermediary competitive advantage. The results of another study by Srivastava, Sultan, & Chashti (2017), which takes the object of the study of the agribusiness industry, show that there is a significant influence of innovation competence on the enterprise's competitive level. Udriyah, Tham, & Azam (2019), which examines SMEs in the textile sector, shows that market orientation and innovation simultaneously have a positive and significant impact on competitive advantage and business performance by 46.3 percent.

### 3. Methodology

This study is causal descriptive research. It uses quantitative research analysis through the descriptive analysis method and simple linear regression. The research strategy used is a survey by distributing questionnaires as the data collection technique. The independent variable in this study is Product Innovation (X), while the dependent variable in this study is Competitive Advantage (Y). Following Table 1 contains the operational variables.

**Table 1:** Operational variables

No.	Variable	Sub Variable	Indicator	Code
1	Product Innovation (Kotler & Keller, 2016:454-458)	New Products	Company X always focuses on innovating its new menu.	PI1
			Company X's new product innovation is getting better and better.	PI2
		Existing Product Improvements	Want to insert other innovations when improving their products	PI3
			I feel that product innovations that still need improvement are always evaluated by Company X	PI4
		New Product Line	Company X continues to innovate on its newest product line. (Such as a new product line, namely in the form of a pop fish snack)	PI5
		Additions to existing product lines	Company X continues to innovate by adding new product variants to a product line. (Such as the addition of the spice variant menu on the pop fish snack)	PI6
2	Competitive Advantage (Bharadwaj, Varadarajan, & Fahy, 1993)	Product uniqueness	Company X has a menu with its characteristics that make its products unique to enable them to excel in the competition.	CA1
			I feel that the characteristics of the food they have can be one of the reasons why consumers choose Company X over its competitors.	CA2
		Difficulty to be imitated	The menu offered by Company X may be difficult for competitors to imitate.	CA3
			I feel like I haven't found a competitor that can imitate the food from Company X.	CA4
		Rare to find	I find it rare to get food with the taste that Company X has in its competitors.	CA5
		Competitive price	The prices that Company X charge to consumers are affordable so they can compete in the market.	CA6
		Difficulty to be replaced	It is difficult to find a meal replacement product offered by Company X elsewhere or its competitors.	CA7

The scale used in the distributed questionnaire is a five levels Likert scale. Because Company X cannot provide the number of customers' data, this study uses Bernoulli's formula to determine the number of samples. With an accuracy rate of 5 percent, confidence level of 95 percent, Z value equals 1.960, and an error rate of 10 percent, the formula results in the number of 96.04 which is rounded to 100. Therefore, the number of respondents for this study is 100 respondents. The sampling technique used in this research is non-probability sampling with purposive sampling. The sample criteria taken are Company X consumers in Bandung City who have made transactions at least once in the last 6 months with an age range of 15-54 years old.

The questionnaires distributed have gone through validity and reliability tests first with the number of respondents as many as 30 people. The validity test was carried out by using the Pearson Product Moment formula. As for the reliability test, the researcher used the Cronbach's Alpha method. Furthermore, for data analysis, this study used descriptive analysis. Based on the evaluation criteria for each questionnaire's statement, the rating categories are obtained as shown in Table 2 below.

**Table 2:** Rating categories

Proportion	Category
20% - 36%	Very low
37% - 52%	Low
53% - 68%	Medium
69% - 84%	High
85% - 100%	Very High

Source: own elaboration

Furthermore, to determine the direction of the relationship between the independent and the dependent variable and predict the value of the dependent variable if the value of the independent variable changes, this study uses simple linear regression analysis. To test the research hypothesis, the researchers used a t-test with criteria for accepting or rejecting H0 at a 95 percent confidence level or a five percent error rate. The hypotheses of this research are:

*H0: There is no effect of product innovation on the competitive advantage.*

*H1: There is an effect of product innovation on the competitive advantage.*

Finally, to find out the influence percentage of the independent variable on the dependent variable simultaneously, the study uses the coefficient of determination. Furthermore, the results of the data analysis are presented in the next section.

#### **4. Result and discussion**

From the observations on the Company X, it is known that some of its innovations are:

- Company X has two concepts to be offered to the partner who wishes to participate. The first concept is a regular franchise, which means all operational funds are directly managed by partners. This concept is very appropriate for potential partners who want to be serious when running their business. The second concept is autopilot where all operational processes are directly managed by the Company X team, while partners only need to receive monthly results reports. The following concept is appropriate for partners who want to do business but do not want to do it themselves due to limited time.
- Company X is inspired by a fish and chips dish, but then it was modified to replace chips with rice according to the staple food of Indonesians. The main menu is fish fillet wrapped in flour and equipped with a dish of coconut rice and a variety of chili sauces to choose from. As an accompaniment to the fried fish, rice is also provided with the stuffing of fine anchovies and sliced lime leaves.
- Before the grand opening, a branch of Company X created an Instagram account that provides the latest information for its followers such as information on the menus offered, guessing games with prizes, and so on. Four days before the grand opening, buyers can pre-order the food from Company X with a minimum purchase requirement of three portions through a marketplace.
- Company X has more than 3 food packages with a menu that is constantly being developed.

#### 4.1 Validity and reliability test

Before discussing the results of the descriptive analysis, it is needed to know the results of the validity and reliability tests carried out. The results of the validity test are used to see the degree of accuracy between the data that occurs in the research object and the data that can be reported by the researcher. Based on the results of the validity test using SPSS, the values obtained for all Product Innovation (PI1 – PI6) and Competitive Advantage (CA1 – CA7) statements have a t-count result that is greater than the standard value. It is also found that the 2-tailed significance value is smaller than the significance level. This result indicates that all statement items are valid. While the results of the reliability test show that six statement items for the Product Innovation variable and seven statement items for the Competitive Advantage variable have Cronbach's Alpha values that are greater than the good limit indicator value. These results indicate that both variables are indicated as reliable.

#### 4.2 Characteristics of respondents

Based on data from 100 respondents in this study, the characteristics of respondents based on age were dominated by respondents aged 15-24 years old with a proportion of 95 percent. Meanwhile, the proportion of respondents aged 25-54 years old is 5 percent. If classified by gender, most of the respondents in this study were women with a proportion of 57 percent. Meanwhile, the proportion of male respondents is 43 percent. Furthermore, if classified by occupation, students dominate the total respondents with a proportion of 70 percent. It then followed by the private employees around 18 percent, entrepreneurs around 8 percent, and housewives around 4 percent.

If classified based on monthly income, it is recorded that respondents with monthly income below IDR 1,800,000 dominate with a proportion of 50 percent. The next rank is respondents with a monthly income between IDR 1,800,000 to IDR 3,000,000 with a proportion of 25 percent. Furthermore, respondents with monthly income between IDR 4,800,001 to 7,000,000 with a proportion of 10 percent, monthly income of IDR 3,000,001 to 4,800,000 with a proportion of 8 percent, and monthly income above IDR 7,000,000 with a proportion of 7 percent.

#### 4.3 Descriptive analysis

##### 4.3.1 Assessment of product innovation

**Table 3:** Assessment of product innovation

Statement	Score	Category
PI1	72.2%	High
PI2	74.4%	High
PI3	76.6%	High
PI4	76.2%	High
PI5	77.8%	High
PI6	78.0%	High
Total	75.8%	High

Based on Table 3 above, PI6 is the statement with the highest rating with a score of 78 percent. The PI6 statement is in the high category. This shows that respondents agree and respond positively to Company X because it has made innovations in adding new product variants to its product line.

While the lowest score of respondents' assessment for the product innovation variable is in the PI1 statement with a score of 72.2 percent. This PI1 item states that Company X always focuses on innovating its new menu. Even though this statement received the lowest assessment score, the rating category was still included in the high category. This proves that the response given to all indicators of product X innovation is positive. Overall, the consumer's assessment of the Product Innovation variable belongs to the category of high percentage grouping with a score of 75.8 percent.

##### 4.3.2 Assessment of competitive advantage

**Table 4:** Assessment of competitive advantage

Statement	Score	Category
CA1	80.4%	High
CA2	82.2%	High
CA3	64.0%	Medium
CA4	68.6%	Medium
CA5	72.6%	High
CA6	79.0%	High
CA7	72.2%	High
Total	74.1%	High

Based on Table 4 above, CA2 is the statement with the highest score of 82.2 percent. The CA2 statement is in the high category. This result shows that respondents agree and respond positively to Company X because it has a characteristic in its food to be one of the causes of consumers choosing Company X over its competitors. Meanwhile, a statement that received the lowest score was CA3 at 64 percent. With this score, CA3 is still in the medium category. This shows that respondents feel that the menu offered by X is not too difficult for competitors to imitate. Overall, the consumer's assessment of the Competitive Advantage variable is included in the high category with a score of 74.1 percent.

#### 4.4 Simple linear regression analysis

From the results of the analysis of variance (ANOVA), it is found that the F count equals 101.896 with a significance level of 0.000. This value is smaller than 0.05, so it can be identified as the influence of the Product Innovation variable (X) on the Competitive Advantage variable (Y). Furthermore, the regression equation is seen as follows:

$$Y = 5.149 + 0.869X$$

From this regression equation, it can be interpreted that the consistent value of the Competitive Advantage variable is 5.149. With a regression coefficient of Product Innovation (X) of 0.869, it shows that for every additional value of Product Innovation, the value of Competitive Advantage increases by 0.869. The regression coefficient is positive, so it can be said that the direction of the influence of the variable X on Y is positive.

#### 4.5 Hypothesis test

The results of the t-test indicate that the significance value of the effect of Product Innovation on Competitive Advantage is 0.000, where this value is less than 0.05. Meanwhile, the t-count value is 10.094, where this value is greater than the t-table value of 1.984. Because of these results, it can be indicated that H0 is rejected and H1 is accepted. The hypothesis test proves that there is an effect of Product Innovation (X) on Competitive Advantage (Y).

#### 4.6 Coefficient of determination

The result of the coefficient of determination test shows that the value of  $r^2$  or the coefficient of determination is 0.510. This indicates that the Product Innovation variable provides more than half of the information needed to predict the Competitive Advantage variable. The magnitude of the influence of Product Innovation on Competitive Advantage is 51 percent.

By comparing to the previous studies, this study strengthens studies by Lestari, Budianto, & Setiawan (2020) and Taan (2017) which show the effect of product innovation on competitive advantage. There is a difference in the value of the influence of product innovation on competitive advantage between this study and Lestari, Budianto, & Setiawan (2020). It is reasonable considering that both are researching different sub-sectors of the creative economy. This study examines the culinary sub-sector, while the two studies examine the craft sub-sector.

Furthermore, this study also strengthens the research of Ferreira, Coelho, & Moutinho (2020), Ferreira, Cardim, & Branco (2018), Hussain et al. (2020), Srivastava, Sultan, & Chashti (2017), and Udriyah, Tham, & Azam (2019) which shows that innovation, as a variable with various dimensions, influences competitive advantage.

Innovation together with other variables and as an intermediary variable influence competitive advantage in various economic sectors.

## 5. Conclusion

From the data processing and analysis that has been done, it can be concluded several things as follows:

- Product Innovation and all its indicators are in the high category based on the respondents' assessment.
- Competitive advantage is in the high category based on the respondent's assessment, although the difficulty to be imitated indicator is still rated medium.
- Product innovation has a positive effect on competitive advantage by 51 percent. Furthermore, the value of Competitive Advantage is 5.149 if product innovation is worth 0. For every addition of one value to Product Innovation, the value of Competitive Advantage increases by 0.869.

It is suggested for the X company to improve the 'difficult to be imitated' aspect, so later the customers will perceive it as a high category indicator. For further research, it is encouraged to conduct the study to measure the impact of product innovation on the competitive advantage as a periodic study. Hence, there will be seen the company's innovation performance periodically. It is also suggested to explore the other aspects that influence the company's competitive advantage and compare the condition of innovation and competitive advantage during and after the Covid-19 outbreak.

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