

## EXPLORING THE ROLE OF MARKETING INNOVATION IN ENHANCING SERVICE QUALITY AND COMPETITIVE ADVANTAGE OF SMEs IN PALANGKA RAYA UNIVERSITY OF CENTRAL KALIMANTAN]

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**Abstract.** *This study examines the relationship between marketing innovation, service quality, and competitive advantage in two local coffee shops in Palangka Raya: Terserah.id Café and Pistos Café & Billiard. Using a qualitative case study approach, the research aims to capture real operational issues through interviews, observations, and documentation collected over a four-week period. The results show that both cafés experience inconsistent service quality. Terserah.id faces workload imbalances during busy hours, while Pistos struggles with weak internal coordination even though it has more employees. These conditions create unstable customer experiences and reduce the cafés' competitive strength. The study also finds that marketing innovation cannot be implemented effectively when basic service processes are not yet stable. Although both café owners express interest in creative and digital marketing strategies, operational challenges make it difficult to apply them. Overall, the findings emphasize that strong and consistent service quality is the main foundation for building competitive advantage and supporting the successful implementation of marketing innovation in MSME-based service businesses.*

**Keywords:** *Coffee Shop Management; Competitive Advantage; Marketing Innovation; MSMEs; Service Quality.*

### 1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in supporting economic activities across various regions, including the City of Palangka Raya. MSMEs not only serve as a source of livelihood for local communities but also function as important drivers that help maintain regional economic stability. Various types of businesses, such as culinary services, trade, and fashion, continue to grow, which indicates that public interest in entrepreneurship is increasing. This development offers significant opportunities; however, it also introduces new challenges that MSME actors must address.

Shifts in consumer behavior, influenced by the advancement of digital technology, have changed the way businesses and customers interact. Consumers now rely more heavily on digital media to obtain information and expect services that are fast and responsive. However, existing literature shows that MSMEs still face many obstacles related to business management, technological adoption, and the use of effective marketing strategies. These issues result in MSME growth not always contributing directly to regional economic improvement. Previous studies have found that MSME development has not had a significant impact on economic growth in Palangka Raya. This situation suggests that an increase in the number of MSMEs must be supported by improvements in business management quality.

In the context of increasing competition, innovation becomes an essential factor for the sustainability of MSMEs. Innovation involves more than product development; it also includes improvements in production processes, operational efficiency, and market access. Recent studies show that innovation has a positive effect on the performance and competitiveness of

MSMEs. However, many MSME actors have not fully utilized innovation because of limited technological capabilities and the minimal application of modern marketing strategies. This gap makes it difficult for MSMEs to adapt to rapid changes in the market.

This gap also affects the quality of services provided to customers. In a competitive market environment, service quality is a crucial factor that determines customer loyalty and long-term business success. Therefore, it is important to understand how marketing innovation and service quality contribute to the formation of competitive advantage, especially for MSMEs in Palangka Raya. Based on these conditions, this study aims to analyze the relationship among marketing innovation, service quality, and competitive advantage. However, although previous studies have highlighted the importance of innovation and service quality, their combined impact on competitive advantage among MSMEs in Palangka Raya remains underexplored. Therefore, this study seeks to fill that gap and provide a more comprehensive understanding of strategies that MSMEs can apply to improve their competitiveness in the digital era.

## **2. LITERATURE REVIEW**

### *2.1 Marketing Innovation*

Marketing innovation is considered an important factor in the development and sustainability of businesses in the era of modern competition. Innovation in marketing does not only refer to promotional activities but also includes efforts to introduce new ways of delivering value, building relationships with consumers, and adjusting approaches to changes in market behavior. "Innovation is key to gaining competitive advantages." (Farida and Setiawan, 2022). According to the literature, marketing innovation involves the use of technology, creativity in presenting information, and the ability to understand consumer needs more deeply. "Innovation is an important driver of business competitiveness..." (Farida and Setiawan, 2022). Digital transformation enables business actors to present marketing messages that are more relevant and interactive. "Digital marketing can connect with diverse audiences..." (Asikin et al., 2024).

In addition to expanding communication reach, marketing innovation plays a role in creating differentiation that is important for business sustainability. The literature shows that marketing innovation is closely related to the formation of competitiveness. "Innovation is classified into two types: radical and incremental." (Farida and Setiawan, 2022).

Technological developments and lifestyle changes encourage business actors to continuously update their marketing approaches. Thus, marketing innovation is not only a promotional tool but a comprehensive strategy that emphasizes long term value creation. After discussing marketing innovation, this study also reviews service quality because it plays a central role in shaping customer experience in service-based businesses.

### *2.2 Service Quality*

Service quality is a fundamental component in service based industries. Service quality describes the extent to which an organization is able to consistently meet consumer expectations and needs. The literature places service quality as a combination of important aspects such as tangibles, reliability, assurance, empathy, and responsiveness. "This paper has used five dimensions of service quality..." (Shrestha, 2021). The physical aspect includes cleanliness and comfort, while reliability relates to the consistency of service delivery. "Reliability is the strongest dimension impacting satisfaction..." (Shrestha, 2021).

Good service quality creates emotional value that affects loyalty. "Service quality is the most important factor that makes customers satisfied and loyal." (Shrestha, 2021). To link both marketing innovation and service quality to business outcomes, this study also examines the concept of competitive advantage.

### *2.3 Competitive Advantage*

Competitive advantage describes an organization's ability to achieve a superior position compared to competitors. "Competitive advantage involves enhancing a company's value to its customers." (Asikin et al., 2024). Generic strategies such as cost leadership, differentiation, and focus become an important foundation. "A company can establish a competitive advantage by implementing one of the three generic strategies." (Asikin et al., 2024). Dynamic capability becomes part of the formation of competitive advantage. "Competitive advantage is at the heart of a company's performance in a competitive market." (Farida and Setiawan, 2022).

Competitive advantage is formed from a combination of innovation, strategy, and adaptive capability. "Competitive advantage stems from a company's strategic choices..." (Farida and Setiawan, 2022). Although previous research has shown that marketing innovation and service quality contribute to competitive advantage, very few studies have explored these relationships specifically within MSME coffee shops in Palangka Raya. Existing studies are mostly quantitative or focus on larger industries. Therefore, this study fills this gap by using a qualitative case study approach to analyze these variables in real operational settings.

### **3. RESEARCH METHODS**

This study employed a qualitative approach with a case study method because the research aimed to understand in depth the operational issues, service quality, and competitive advantage in two coffee shops in Palangka Raya. The selection of this method was essential since the study did not use numerical data, but relied on the experiences, perceptions, and explanations of business actors as the primary sources of information. According to Yin (2014), a case study is appropriate when researchers seek to explore phenomena within real-life contexts whose boundaries are not clearly defined. Meanwhile, Creswell (2013) explains that a qualitative approach allows researchers to explore meanings and participant experiences more deeply through direct interaction. Therefore, the case study method was considered the most suitable for comprehensively understanding issues related to service quality, operations, and competitiveness in coffee shop environments.

The study was conducted in Palangka Raya City at two coffee shops located on Jalan Sam Ratulangi, namely Terserah.id Café and Pistos Café & Billiard. These locations were intentionally selected because they faced real challenges related to unstable service quality, task distribution, workload imbalance, and internal coordination. Moreover, each café exhibited different operational characteristics, creating contextual variations that enriched the analysis. This setting provided a real environment that enabled the researcher to observe service dynamics that affect business competitiveness.

Data collection was carried out over four weeks, from 25 October 2025 to 25 November 2025, during which both cafés operated under normal conditions. This period was chosen because it allowed the researcher to observe daily routines, service patterns, and employee interactions directly. Additionally, the chosen timeframe enabled repeated interviews, further clarification of information, and triangulation to ensure the credibility of the data. A four-week duration was considered sufficient to capture recurring operational dynamics, ensuring that the findings obtained were stable and representative.

The research participants consisted of individuals directly involved in café operations, including owners or managers, baristas, cashiers, waiters, and kitchen staff. They were selected using a purposive sampling technique based on specific criteria such as at least three months of work experience, an understanding of café workflow, direct involvement in customer service activities, and willingness to provide honest information. These participants were selected because they directly experienced the issues under investigation, thus providing authentic insights into service quality, operational constraints, and the cafés' competitive advantage. This approach aligns with Creswell's (2013) recommendation that qualitative informants should be chosen based on the depth of information they can provide.

Data were collected through in-depth interviews using semi-structured guidelines. This technique was employed because it allowed the researcher to explore information further through probing questions and obtain a more natural understanding of participants' experiences. In addition to interviews, non-participant observation was conducted to verify whether on-site conditions matched the information provided by respondents. Documentation such as photos, internal notes, and field findings was also used to enhance data credibility.

Data analysis followed the interactive model of Miles, Huberman, and Saldaña (2014), which includes data reduction, data display, and conclusion drawing. In the data reduction stage, the researcher simplified and categorized the interview and observation data according to relevant themes such as service quality, work coordination, and competitive advantage. The data display stage involved presenting thematic narratives to reveal patterns and relationships among the findings. The final stage involved drawing conclusions by interpreting the overall findings and verifying them through triangulation and member checking to ensure consistency with field conditions.

#### **4. RESULTS AND DISCUSSION**

The findings of the study indicate that service quality is the most influential factor shaping customer experience in both coffee shops. At Terserah.id Café, service quality was inconsistent, particularly during peak hours. Baristas and waiters often had to handle multiple tasks simultaneously, such as preparing beverages, cleaning the workspace, and managing additional stock, which caused delays in serving orders. Field observations confirmed that these delays occurred because the workload was not balanced with the available number of employees. Meanwhile, Pistos Café & Billiard employed more staff, but faced challenges in work coordination. Employees frequently waited for instructions or hesitated to execute orders, resulting in long waiting times despite having adequate manpower. These findings show that service quality had not been standardized and did not reflect the implementation of the reliability and responsiveness dimensions outlined in the SERVQUAL model.

This condition aligns with the statements of the café owners, who acknowledged that employee training had not been conducted regularly and that standard operating procedures were not applied consistently. The instability of service quality not only affected customer experience but also weakened the cafés' competitive advantage. Most of their current competitive strengths relied on physical aspects, such as interior design, ambiance, and menu variety, rather than on service quality or operational efficiency. However, competitive advantage theory emphasizes that sustainable differentiation must be supported by consistent service performance. When service is unstable, a café's competitive strength becomes fragile and cannot sustain long-term business development.

In the marketing context, the study found that both cafés had not yet developed effective marketing innovation. Social media was used as a promotional channel, but not managed optimally. There were no structured content plans, no consistent posting schedules, and no monitoring of customer responses. Café owners mentioned their interest in implementing creative promotional activities such as video-based content, thematic events, or community collaborations, but these initiatives were difficult to execute due to internal operational issues. Consequently, marketing innovation did not progress, not because of a lack of ideas, but because the foundational elements of service quality and competitive strength were not yet stable enough to support innovative efforts.

When these findings are analyzed through theoretical perspectives, the relationship between service quality, competitive advantage, and marketing innovation becomes evident. Inconsistent service leads to unstable customer experiences, which reduces perceived value. When perceived value declines, the café's competitive position weakens. Under such conditions, marketing innovation cannot function effectively because it requires strong operational

foundations to be well-received by customers. Contemporary marketing innovation literature emphasizes that innovation succeeds only when businesses possess solid core value, particularly in service-based industries where customer experience is the primary product. These findings reinforce that both coffee shops have not reached the level of internal readiness necessary to generate sustainable marketing innovation.

Overall, the study highlights that service quality and competitive advantage are essential prerequisites for the emergence of marketing innovation. Innovation cannot develop or operate effectively when the internal service mechanisms remain weak. Therefore, this research contributes to the literature on MSMEs and local coffee shops by demonstrating that service improvement and competitive strengthening must precede more creative or digital marketing innovation strategies.

## **CONCLUSION**

The results of this study highlight that service quality plays a decisive role in building the competitiveness of MSMEs, especially in service-oriented businesses such as coffee shops. In both Terserah.id Café and Pistos Café & Billiard, the inconsistency of service delivery, whether caused by an unequal distribution of workload or weak internal coordination, directly influenced customer perceptions. When customers experience delays, uncertainty, or irregular performance, the value they attach to the business declines, which ultimately weakens the café's competitive position despite having appealing physical designs or diverse menu selections.

The study also finds that marketing innovation cannot be implemented effectively when the fundamental aspects of service quality and operational stability are not yet well established. Although the café owners showed interest in adopting creative and digital marketing approaches, these initiatives were difficult to realize because internal operational issues had not been resolved. This supports the theoretical view that innovation can only function optimally when supported by strong core processes that ensure reliability, consistency, and customer satisfaction.

In conclusion, service quality serves as the essential foundation for the development of both competitive advantage and marketing innovation. MSMEs that seek to strengthen their market position need to prioritize improvements in operational coordination, the establishment of clear service standards, and the balancing of workloads among employees. Only after these aspects are addressed can marketing innovation be introduced in a sustainable and meaningful way. Therefore, enhancing service quality is not only an operational obligation but a strategic requirement for ensuring long-term competitiveness in an increasingly dynamic and digitally influenced market environment.

### *Limitations of the Study*

This study has several limitations. First, it only examined two coffee shops, limiting the generalizability of the findings. Second, the qualitative approach depends on the honesty and perspectives of informants. Third, the four-week observation period restricted the variation of operational conditions captured. Future research is encouraged to use a larger sample and a mixed-methods design.

### *Practical Implications*

The findings provide practical implications for MSME owners. Establishing clear service standards, improving employee coordination, and ensuring regular training are essential for achieving consistent service quality. After operational stability is achieved, marketing innovations such as structured digital content, creative campaigns, and community collaborations can be implemented more effectively to strengthen competitive advantage.

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