

THE ROLE OF INNOVATION AND CUSTOMER SERVICE IN THE SUCCESS OF MALAYSIAN F&B SME

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Abstract: *This paper represents a conceptual framework that explores the relationship between innovation and customer service in the Malaysia's food and beverages industry. In rapidly changing environment and the increasing Gen z population, the F&B sector facing the increasing pressure from the external force which could constraints the business from growing. This study synthesizes existing literature on innovation types which is on the product and services approach that a business could apply to gain desired business success. By offering a structural approach to understanding how innovation and customer services influences business success, this conceptual framework serves as foundation for both academic research and practical implications.*

Keywords: *Innovation, customer service, business success, SME, F&B industry.*

Introduction:

Food and beverages industry is one of the thriving sectors that showcase the uniqueness of local food and culinary heritage in a country. Food sectors are the largest industry in a country and it is also the starting central of public health (Sovacool et al., 2021). This industry is divided into two major segments which is production and distribution of edible goods. Normally, in production part, it involves the processing of raw materials into something that is meant to be eaten while in distribution, it involves transporting the finished goods to the customers. The main key characteristic of this industry is on its consumer centric as it been driven by consumer tastes, preferences and trends such as health consciousness, convenience and sustainability. Due to the rising demand for organic, gluten-free, low-calorie product, ready to cook and eco-friendly packaging, food and beverages industry seizing this business opportunity to innovate on the products and its services.

In Malaysia, the food and beverages officially being industrialization just after gaining the independence on 1957. The First Industrial Master Plan (IMP1) was first launched in 1986 to enhance the manufacturing sector, including food processing. In the early of 1990s, the Halal Food production is introduced to cater the Muslim consumer globally. This initiative gives massive impact on food and beverages business as it enlarges the potential market worldwide. This industry is influenced by diverse flavour of various races, and thus make it more quite challenging for the entrepreneur to serve the best to the customers (Akanmu et al., 2023).

In add, this industry has contributed significantly to Malaysia's GDP. Recently, according to the Domestic of Statistic Malaysia, in the Quarterly Services Statistics report for the second quarter of 2024, the performance of services sector by segment showed that food and beverages industry together with accommodation, wholesale and retail trade provides the highest revenue that is RM461.4b among the top four (4) services sector in Malaysia. This segment also has the highest number of persons engaged that is 2,952,159 people, indicates that this industry employed the most of Malaysian residents (*Malaysia's Services Sector Sees 6*, n.d.).

The current issues on the increasing food cost and quantity demanded decrease due to increase in consumer price index become the push factor for the entrepreneur to seek ways to maintain their business in the market. It is also expected that in 2024 and onwards, the food scene in Malaysia is expected to be the mix between traditional and modern, locally and globally taste as a result of technological usage and application especially with the upcoming generation that is Gen-z population (Vincent & Ahmad, 2021). This population also are demanded on eco-friendly and health-conscious products which is aligned with the sustainable consumption (Suryaningrum et al., 2023).

Thus, this study specifically designed to help the business in food and beverages industry in Malaysia to keep maintain great customer service with the involvement of innovation both within the business operation and production. This study is evolved around the theory of competitive advantage by Michael Porter where the basic idea is that a company's competitive advantage comes from the value it creates for its customers that exceed the cost for creating it (Alqershi et al., 2020). In general, this idea helps the business to stay perform in the long term with the profit generated from the creation itself. This study also may contribute to the policymaker insights in enhancing the economic growth and industry competitiveness by creating targeted strategies through innovation in food and beverages industry in Malaysia.

Literature Review

Underpinning Theory

In 1985, Michael Porter has proposed the theory of competitive advantage. This theory suggested that a business must pursue to create high quality goods to be sold at high prices in the market (Islami et al., 2020). In analysing the industry's competitive forces, Porter come out with the five (5) main forces that are competition, the threat of new entrants to the industry, supplier bargaining power, customer bargaining power and the ability of the consumer to substitute for the sector's product (Citra Birru et al., 2022). Threat of substitution means high when rivals offer more attractive or lower cost product but yet meet the consumer preferences. Thus, from these forces, Porter designed three (3) generic strategy to combat with the issues. The three (3) variables are cost leadership, differentiation and focus strategy.

Cost leadership is a strategy where the business targeting to be the leader of lowest cost producer in industry, and thus gaining competitive advantage (Kimiti et al., 2021). This can be achieved by improving the efficiency across the organization and reducing overhead cost by tightly control cost in the areas like research and development, advertising and services sales. Taking advantage on scale also could help a business to keep lower the cost of production. Implementing cost leadership in creating innovative product could benefits the business to keep its performance by increasing its focus on market share to the price sensitive customers. An organization also could streamline operations and at the same time, providing high quality, health- conscious products at competitive prices to the consumer (Gheibi, 2020).

Second is differentiation that is by being the leader in offering uniqueness of product or services (Citra Birru et al., 2022). This strategy could make a company to stand out from competitors in meeting the needs of target audience. An organization must firstly identify the key attributes that could set apart its product and services far away from rivals, then creating a unique offering that must unmet the needs that others may have not. A successful differentiation strategy could build customer loyalty and increase the market share (Haque et al., 2021).

Lastly, as suggested by Porter is focus strategy. This strategy involves the company effort to concentrate on specific market segment (Olson et al., 2021). This can be done by developing deep understanding on the segment's need and preferences and then tailor the product or services to meet the market demand. Focus strategy could help a business to gain an advantage by offering specialized offering and quality of products that meet the preferences of the consumers.

Innovation

Innovation is a process where a product or services been renewed and up dated according to current trend (Shen & Zhang, 2023). It can be the practical implementation by the organization that are result from the introduction of new goods or services or improvement in offering goods and services. Innovation is substantial to deliver the net new growth of an organization by thinking outside the box and taking calculated risk to drive the progress and achieve breakthrough. In short, the alteration in products and services done is aimed to enhance efficiency and effectiveness in the market (Mahardhani, 2023).

Innovation encompasses product innovation, process innovation, business model innovation and organizational innovation. The main key elements in doing the added value are creativity and practical. In marine industry, bringing technology into the market allow several new value chain configurations which gives impact on its production cost (Afewerki et al., 2023). By streamline

operations through automating task, it helps to improve efficiency and communication within the organizations. In add, digital financial innovation could enhance firm's performance. Innovation could beneficial to a business in maintaining its performance in a long run because it encourages solution that balance economic, environmental and social objectives (Wu et al., 2024). In highly competitive environment, innovation on products can increase corporate earnings however it must be done through thorough research and development (Abbas et al., 2024). In meeting with market demand, innovation could help a business to adapt with the changing environment and at the same time, ensure its market share. On economic growth, innovation has the power to drive the productivity in a country and competitiveness in industries. This is proven by a study in manufacturing industry, where the usage of digital twin, in which innovation from digital technologies helps to optimum the manufacturing setting and material requirements that formerly be done by humans (Stanko & Rindfleisch, 2023).

Innovation in the context of competitive advantage theory utilized the uniqueness of value propositions that can differentiate a firm in marketplace. The differentiation advantage enables the business to stand out from its rivals in terms of its offering products and services and also brand perception. The organization which possesses differentiate its product and services is favourable by its consumer (Alghamdi & Agag, 2024). The offerings often at the same time improve brand reputation and hence making the firm more attractive to consumers (Susanti et al., 2023). On the other hand, cost leadership advantage could allow the organization to reduce cost while maintaining quality of the offerings. Through leveraging economies of scale permits a company to offer goods at more competitive prices and gain substantial market share (Bhat et al., 2024). In essence, innovation within competitive advantage theory enable business to optimize cost and gain business success and maintaining sustainability and adaptability in competitive environment.

Innovation in Customer Service

Customer service is the support, or assistance provided by a business to respective consumers during and after sales. The key factor of service quality is to ensure customer satisfaction and retaining customers, however an organization must be keeping in balance manner to achieve optimal service quality (Subagja et al., 2023). Retaining customers is essential for business sustainability since it provides significant benefits to organization. Retention strategies often yield higher returns because loyal customers already trust the brand instead of acquiring new customers. Nevertheless, gaining new customers involve the effort on marketing, advertising and onboarding effort which require specific cost. Satisfied customer more likely to repeat purchase over time, providing a consistent revenue stream.

In the advancement technology usage nowadays, customer service had leveraged digitalization in providing services to the customers. The technology integration, predictive analytics, gamification, augmented and virtual reality and omnichannel platforms has become choices for the organization to applied in their business operation. The AI-powered voice assistants encounter pivotal milestones that mark significant advancement in voice assistant technology (Binti et al., 2023). This feature helps communication company to enhanced customer satisfaction and foster convenient service builds trust and loyalty.

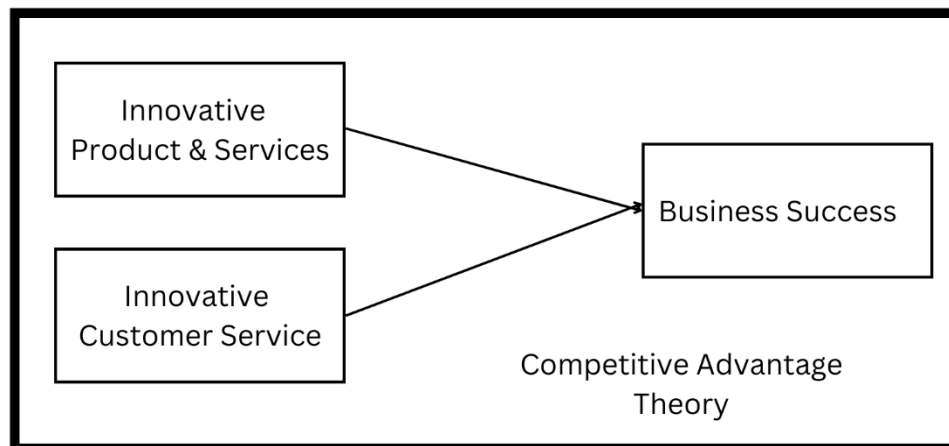


Figure-1: Conceptual Framework

The conceptual framework is developed to explain the relationship between innovation offerings and innovative customer services on success of small and medium enterprise.

Conclusion and Implications

This study conclude that innovation plays a pivotal role in driving competitive advantage and gaining desired success in Malaysia's food and beverages industry. The framework with innovative products & services and innovative customer service could give impact on overall performance of food and beverages business. This framework also identifies the key drivers, barriers and outcomes associated with innovation in the context of this industry.

Theoretically, this study has implications where its contributions toward providing a comprehensive conceptual framework that links innovation to performance by offering insights on how innovation could be leveraged to achieve business success. For the industry stakeholders, this paper has implication in terms of understanding which types of innovation could impact the business success the most. This could help the business practitioner to prioritize innovation strategies aligned with mission and vision of the company. New start up business could take advantage of the study by identifying most relevant innovation to be imply to achieve desirable growth. It is suggested for the researcher to conduct surveys to validate the proposed relationship by exploring the external factors in shaping the innovation method in gaining sustainable success. Lastly, for the industry itself, this paper suggests that food and beverages industry in Malaysia be built up based on innovative culture to foster and meet with the rapid changing customer demand.

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