

CHAPTER I

INTRODUCTION

1.1 Background

As the economic and cultural centre of West Sumatra, Padang City has interesting business dynamics (BPS, 2024). The growth of Padang City's MSME sector, especially in culinary and mobile devices, has fostered business innovations, including co-location (Alamsyah et al., 2020). According to Maiti and Subramanyam (2021), co-location is a collection of similar or dissimilar objects located in proximity that indirectly compliment and create synergies. Likewise, other sources, such as Alamsyah et al. (2020), show how co-location in the culinary sector can improve consumer accessibility.

In Padang City, co-location in the culinary sector has become an intriguing phenomenon due to its rapid growth (Yuliviona et al., 2023). Areas such as GOR Haji Agus Salim, Puja Sera Bypass Square, Padang Beach, and Pasar Raya feature clusters of culinary MSMEs, offering consumers a variety of food options in one place. This arrangement not only enhances consumer convenience but also fosters synergies between businesses, boosting both the value creation and capacity building of individual MSMEs (Morioka et al., 2022)

Beyond Padang City's well-known culinary clusters, a similar co-location trend is evident in the mobile device sector, where numerous businesses are concentrated on the 2nd floor of Plaza Andalas. This strategic clustering creates a significant consumer advantage by allowing them to easily compare various products and services from multiple vendors in a single visit (Pecorari & Lima, 2021). This can also make it easier for consumers to then determine their preferences before buying the product (Pecorari & Lima, 2021).

Beside those positive impacts of the culinary and mobile devices sectors that apply the principle of co-location, they experience distinct challenges and opportunities (Bernando & Ray, 2024). In the culinary sector, co-location enhances direct consumer interaction and promotes synergies (Bernando & Ray, 2024). In the mobile devices sector, co-location can enhance competitive advantage by fostering collaboration, innovation, and resource sharing among firms (Dey, 2019). While both sectors benefit from co-location, the distinct challenges they face highlight the need for a supportive environment that can foster their growth (Rahmi & Yuzaria, 2021).

Padang, as the economic and cultural center of West Sumatra, offers unique factors that support the development of co-location. Beyond being a tourist destination, Padang benefits from government policies that encourage the development of the MSME sector, including easy access to

strategic locations and business-supportive infrastructure (Yuliviona et al., 2023; Lenggogeni et al., 2019) These factors make Padang an ideal location to explore the effects of co-location on MSMEs, especially considering the city's growing role as a hub for both culinary and mobile devices businesses.

While several studies have explored the benefits of co-location, there is no research that explicitly compares its impact on the value creation and capacity of MSMEs in the culinary and mobile devices sectors in Padang. This research aims to fill that gap by examining how co-location affects these two sectors differently and identifying the unique challenges and opportunities within each.

This study is highly relevant both practically and academically. For MSMEs in Padang, the results of this research are expected to provide strategic guidance on utilizing co-location to increase business value creation and capacity. Academically, this study will contribute to the literature on co-location and MSME development, particularly in the context of emerging markets.

1.2 Research Questions

Based from the background explained above, the research questions formulating for this research is follow:

1. What are the key factors that engage to the success or failure of co-location among SMEs in the culinary and mobile devices sectors in

Padang City?

2. How is the process of co-location creating value (in terms of profitability, innovation) and improving capacity building (in terms of skills development, technological adoption) for SMEs in the culinary and mobile devices sectors?
3. What are the perceived benefits and challenges of co-location from the perspective of SME owners in the culinary and mobile devices sectors in Padang City?

1.3 Research Objective

This research is conducted in order to give insight toward what happen and provide a solid comprehension of research questions is follow:

1. To explore and analyze the key factors that engage to the success or failure of co-location among SMEs in the culinary and mobile devices sectors in Padang City.
2. To explore and analyze the process of co-location in creates value (in term of profitability, innovation) and improve capacity building (in term of skills development, technological adoption) for SMEs in the culinary and mobile devices sectors
3. To explore and analyze the perceived benefits and challenges of co-location from the perspective of SME owners in the culinary and mobile devices sectors in Padang City.

1.4 Research Contribution

This research is conducted with the expectation of giving additionally benefits to the following parties :

1. Practical Contribution

The findings will offer actionable insights for SME owners and entrepreneurs in Padang City, helping them to make informed decisions about co-location strategies. This can lead to improved business performance, customer satisfaction, and competitive advantage.

2. Policy Implications

The research will provide valuable information for local policymakers and economic development agencies regarding the importance of supporting co-location initiatives. This can inform policies aimed at fostering collaboration among SMEs and enhancing the local business ecosystem.

3. Consumer Insights

By examining consumer behavior in co-located environments, the research will provide insights that can help businesses tailor their offerings and marketing strategies to better meet consumer needs and preferences.

4. Theoretical Contribution

This research will contribute to the existing literature on co-location and SMEs by providing empirical evidence on how co-location influences value creation and capacity building in different business

sectors. It will enhance the understanding of the co-location concept within the context of emerging markets.

1.5 Writing Systematics

This research consists of five chapters, where each one has its focus and purpose. The description of each chapter in detail is as follows:

Chapter I: Introduction

This chapter contains the research background, problem formulation, research objective, research contribution, and systematic writing.

Chapter II: Literature Review

This chapter contains theoretical foundations regarding the theories and variables used in the research, previous research that becomes the basis for the research hypotheses, and frameworks.

Chapter III: Research Methods

This chapter contains the population and research samples, research variables such as independent and dependent variables and the method of data analysis.

Chapter IV: Data Analysis

This chapter presents the analysis of the research data collected in the previous chapter.

Chapter V: Conclusion

This chapter contains conclusions from the results of the research in the previous chapter, limitations of the study, and suggestions for future similar studies.