# CHAPTER I

# INTRODUCTION

## 1.1 Background of the study

The development of the Indonesian coffee industry over the past decade has shown significant growth, both in terms of the number of entrepreneurs, product innovation, and its contribution to the national economy. Data from the Creative Economy Agency (*Bekraf*) shows that the culinary subsector, including coffee shops, contributed approximately 41.6% to the total Gross Domestic Product (GDP) of Indonesia's creative economy in 2023. This growth is driven not only by increasing domestic coffee consumption but also by a shift in lifestyle among the younger generation, who have made cafes part of their contemporary social and cultural identity (Putri & Sudarmadi, 2023; Deloitte, 2022). Young consumers, particularly millennials and Gen Z, no longer view coffee as a mere commodity but as a symbol of experience and lifestyle linked to aesthetic values, creativity, and social interaction. This phenomenon demonstrates the transformation of consumption from a purely functional need to experiential consumption oriented toward emotional and symbolic value (Pine & Gilmore, 1999; Holbrook, 2006).

Local coffee shops in Padang City also demonstrate a similar pattern through the emergence of cafes such as Rimbun, Jiwani Coffee, Kamtumi Cafe, Kopi Solok Radjo, and Parewa Coffee. These businesses combine elements of local wisdom with modern marketing strategies to create distinctive customer experiences and strengthen their market positioning. Elements of local wisdom are reflected in the use of Minangkabau cultural identity through local coffee products such as Solok Radjo coffee, traditional menu adaptations, interior designs inspired by Minangkabau aesthetics, and the incorporation of local social values emphasizing hospitality and community interaction. At the same time, these coffee shops utilize modern marketing strategies through social media branding, digital promotion, aesthetic visual content, influencer collaboration, and customer engagement activities that target younger consumers. Through this combination, coffee shops are able to differentiate themselves from competitors, strengthen customer loyalty, and expand their market reach. These innovations not only reflect changing market dynamics but also demonstrate the important role of coffee shops in supporting the regional economy through job creation, promotion of local products, and the preservation of Minangkabau cultural identity in a contemporary business context (Sari & Utami, 2023; Rahman et al., 2022).

However, behind this rapid growth, the coffee shop industry faces increasingly complex competitive challenges. Intensifying competition requires business actors to move beyond reliance on product quality alone and instead develop differentiation strategies based on customer experience, brand identity, service interaction, store atmosphere, and continuous product and marketing innovation. In increasingly saturated coffee shop markets, consumers are not only seeking high-quality beverages but also unique social and emotional experiences that reflect lifestyle, creativity, and personal identity (Pine & Gilmore, 1999; Holbrook, 2006). Recent studies also indicate that customer experience, café atmosphere, and service quality significantly influence customer satisfaction, loyalty, and revisit intention in coffee shop businesses (Annisa et al., 2023; Saputra et al., 2024; Siswat et al., 2025). Therefore, coffee shop businesses are increasingly required to create distinctive value propositions that are difficult for competitors to imitate and capable of sustaining long-term competitiveness (Barney, 1991; Teece, 2018)

However, alongside this rapid growth, the emergence of specialty coffee has fundamentally transformed the competitive landscape of the coffee shop industry. Rather than competing solely through product quality or pricing, coffee shops are increasingly required to differentiate themselves by delivering distinctive customer experiences, authentic brand identities, meaningful service interactions, attractive store atmospheres, and continuous product and marketing innovation. According to the Specialty Coffee Association (2025), specialty coffee is defined as "a coffee or coffee experience recognized for its distinctive attributes, and because of these attributes, it has significant extra value in the marketplace." This definition highlights that specialty coffee extends beyond beverage quality and encompasses the entire customer experience, including traceability, sustainability, craftsmanship, customer interaction, and service excellence. Consequently, consumers no longer evaluate coffee shops solely based on the quality of coffee served but increasingly seek memorable social and emotional experiences that reflect lifestyle, authenticity, and personal identity.

The emergence of specialty coffee has also reshaped consumer expectations and the sources of competitive advantage in the coffee shop industry. Consumers increasingly seek authentic brands, knowledgeable baristas, personalized service, aesthetically appealing environments, and meaningful interactions that enrich their coffee experience rather than merely purchasing a beverage. Previous studies have shown that experiential value, authenticity, and the overall experiencescape significantly influence customer satisfaction, loyalty, and revisit intention in specialty coffee shops (Samoggia & Riedel, 2020; Opoku et al., 2023). These findings indicate that sustaining competitiveness in specialty coffee businesses requires more than investments in physical facilities and brewing equipment. Instead, competitive advantage increasingly depends on the effective integration of tangible resources with intangible assets, including entrepreneurial knowledge, brand reputation, innovation capability, customer relationships, and organizational adaptability.

In this context, the competitiveness of coffee shop businesses is no longer determined solely by physical assets, but increasingly by their ability to manage knowledge, encourage continuous learning, and adapt to changing market conditions. Previous studies indicate that knowledge inertia, manifested through limitations in learning processes, reliance on past experiences, and rigid operational routines, can hinder innovation and reduce the ability of coffee businesses to respond effectively to evolving consumer preferences and market dynamics (Rahman & Siswowiyanto, 2018). In the highly competitive coffee shop industry, businesses that fail to continuously update their knowledge and service strategies risk losing relevance and customer engagement. Recent studies also emphasize that organizational learning capability and knowledge renewal significantly influence innovation performance, business adaptability, and long-term competitiveness in small and medium-sized enterprises (Jafari-Sadeghi et al., 2021; Santoro et al., 2021). Therefore, continuous knowledge renewal and learning capability are critical in maintaining business relevance and competitiveness, particularly in terms of service innovation, customer experience enhancement, and market responsiveness. This perspective aligns with the Resource-Based View (RBV) theory proposed by Barney (1991), which emphasizes that valuable, rare, inimitable, and non-substitutable resources form the basis of sustainable competitive advantage. Consequently, understanding how coffee shop owners in Padang City manage and integrate tangible assets, such as facilities and operational equipment, with intangible assets, including knowledge, reputation, customer relationships, and adaptive capability, becomes essential for sustaining long-term competitiveness.

According to the Resource-Based View (RBV), organizational resources constitute the primary foundation for achieving sustainable competitive advantage because they enable firms to implement strategies that improve efficiency and effectiveness (Barney, 1991). Resources encompass all assets, capabilities, organizational processes, information, and knowledge controlled by a firm. These resources are generally classified into two major categories: tangible assets and intangible assets (Grant, 2019). Tangible assets refer to physical and financial resources that can be observed, measured, and directly utilized in business operations, including buildings, production facilities, equipment, financial capital, and technological infrastructure. In contrast, intangible assets comprise non-physical resources such as brand reputation, organizational knowledge, customer relationships, employee competencies, innovation capability, and social capital. Although intangible assets are less visible, they are often considered more valuable because they are difficult for competitors to imitate and therefore become a major source of sustainable competitive advantage (Hall, 1992; Barney, 1991).

Within the coffee shop industry, both tangible and intangible assets play complementary roles in creating business competitiveness. Tangible assets provide the operational infrastructure necessary for delivering products and services, including café facilities, brewing equipment, seating capacity, interior design, and digital payment systems. However, the increasing competition in the coffee shop industry demonstrates that physical resources alone are insufficient to sustain long-term competitiveness because competing firms can relatively easily imitate attractive store designs, modern equipment, or comfortable facilities. Instead, competitive advantage increasingly depends on intangible resources such as customer trust, brand authenticity, entrepreneurial knowledge, social relationships, and the capability to continuously innovate according to changing consumer preferences (Grant, 2019; Teece, 2018). Therefore, understanding how coffee shop businesses strategically combine tangible and intangible assets has become increasingly important in explaining differences in business competitiveness.

The importance of balancing tangible and intangible assets becomes even more evident with the emergence of different coffee business models. In Indonesia, particularly in urban areas such as Padang City, coffee businesses have evolved into two dominant operational forms: conventional store-based coffee shops and mobile coffee businesses. Store-based coffee shops generally rely on permanent physical infrastructure, interior atmosphere, customer seating capacity, and location advantages to create customer experiences. Conversely, mobile coffee businesses operate with significantly fewer physical resources and instead emphasize flexibility, mobility, entrepreneurial capability, social interaction, and rapid adaptation to customer demand. This operational difference indicates that each business model depends on different combinations of tangible and intangible resources in achieving competitiveness.

The emergence of mobile coffee businesses represents one of the most significant innovations within Indonesia's contemporary coffee industry. Mobile coffee businesses utilize modified vehicles, coffee trucks, portable kiosks, or mobile coffee carts that enable entrepreneurs to reach consumers directly at public spaces, campuses, office areas, tourism destinations, and community events. Compared with conventional coffee shops, this business model requires relatively lower investment in permanent physical infrastructure while demanding greater entrepreneurial capability, networking, digital marketing competence, and operational flexibility (Davelino et al., 2025). Consequently, competitiveness in mobile coffee businesses depends not only on physical resources but also on the owner's ability to integrate intangible assets, continuously learn from customers, and rapidly adapt to changing market conditions.

Despite the growing popularity of mobile coffee businesses, previous studies have predominantly focused on customer satisfaction, café atmosphere, service quality, and purchase intention within conventional coffee shop settings (Hwang et al., 2021; Aydın & Temizkan, 2024). Relatively limited attention has been devoted to understanding how different coffee business models strategically manage tangible and intangible assets, engage customers through co-creation, and develop adaptive capabilities to sustain competitiveness. Consequently, comparing store-based coffee shops and mobile coffee businesses provides an important opportunity to enrich the Resource-Based View by explaining how different configurations of strategic resources contribute to sustainable business competitiveness in dynamic urban markets.

The rapidly changing dynamics of consumer behavior driven by digitalization, social media trends, and shifting preferences toward sustainable and experience-oriented lifestyles have increased the complexity of managing coffee shop businesses. Modern consumers increasingly value personalized experiences, authentic brand narratives, digital engagement, and environmentally conscious products, requiring coffee shop owners to continuously innovate and respond quickly to market changes (Djafarova & Bowes, 2021; Harrigan et al., 2021). Adapting to these evolving trends demands innovative and responsive capabilities to create relevant value for contemporary consumers. According to Teece (2018) and Lin and Wu (2014),

The success of small businesses in navigating environmental uncertainty depends heavily on their dynamic capabilities, namely the ability to sense opportunities, seize market potential, and reconfigure internal resources effectively. In the context of coffee shops in Padang City, this capability can be reflected in the integration of digital marketing strategies through social media platforms, collaboration with local communities and influencers, and the adaptation of product concepts to changing consumer preferences while maintaining the authenticity of local cultural identity and products. Recent studies also show that digital engagement and adaptive innovation significantly influence customer loyalty and business competitiveness in the food and beverage industry (Yulianti et al., 2023; Jafari-Sadeghi et al., 2021). Therefore, the sustainable competitiveness and growth of local coffee shop businesses are increasingly determined by the synergy between tangible and intangible assets, co-creation with customers, and the ability to dynamically adapt to an ever-evolving business environment.

This condition can be seen in the increasing number of coffee shops in urban areas that compete primarily through visually attractive interiors, modern facilities, and aesthetic café concepts in order to attract consumers, particularly younger generations who are highly influenced by social media trends. Many coffee shops invest heavily in physical appearance, such as unique interior designs, expensive brewing equipment, and "Instagrammable" spaces, but often pay less attention to developing customer relationships, strengthening brand authenticity, and creating meaningful interaction with consumers. As a result, several businesses experience difficulties in maintaining customer loyalty and sustaining long-term competitiveness despite having attractive physical environments. In highly competitive markets, consumers can easily switch to other coffee shops offering similar products and physical concepts when emotional attachment and relational value are weak. Recent studies also demonstrate that customer experience, emotional engagement, and social interaction have a stronger influence on revisit intention and customer loyalty than physical facilities alone in experience-based service industries such as coffee shops (Annisa et al., 2023; Saputra et al., 2024; Iglesias et al., 2019). This indicates that intangible assets, including trust, social connection, and brand experience, have become increasingly important in sustaining competitiveness and business continuity in the coffee shop industry.

Intangible assets are increasingly recognized as key drivers of value creation and business differentiation in the service sector, which relies heavily on customer experience. Coffee shops are not just places to enjoy coffee, but also social spaces with emotional and symbolic dimensions for customers. Therefore, brand reputation, the cafe's atmosphere, and the quality of interactions between baristas and customers are crucial factors in shaping perceived value and loyalty (Seo et al., 2020; Abubakar et al., 2019). A study by Rahman, Besra, and Nurhayati (2020) in the context of MSMEs in West Sumatra also showed that the ability of entrepreneurs to build trust and social relationships is directly correlated with business resilience and growth. This reinforces the assumption that intangible assets serve as the "heart" of competitive advantage in the experience-based creative industry.

In recent years, the phenomenon of mobile coffee businesses has expanded across various urban areas in Indonesia, including Padang City. Unlike store-based coffee shops that require substantial investment in physical assets, mobile coffee businesses operate with minimal infrastructure, lower fixed capital, and a high degree of operational flexibility in determining locations and operating hours. Consequently, this business model relies heavily on intangible assets, such as the ability to build social networks, communicate effectively with customers, and absorb knowledge in order to adapt to dynamic business environments. Within the context of small and medium-sized enterprises (SMEs), previous studies emphasize that the effective utilization of networks, learning processes, and knowledge transfer plays a crucial role in enhancing business competitiveness and sustainability (Jafari-Sadeghi et al., 2021). Empirical evidence from Indonesia also indicates that mobile coffee businesses create new economic opportunities for MSME actors despite limitations in physical assets and the challenges of managing highly dynamic operations (Davelino et al., 2025).

According to the Resource-Based View (RBV), firm resources can be classified into tangible and intangible assets. Tangible assets are physical and financial resources that can be observed and measured, whereas intangible assets are non-physical resources that create value and contribute to sustainable competitive advantage (Barney, 1991). In addition, firms require capabilities to effectively deploy and reconfigure these resources in response to environmental changes (Teece et al., 1997).

To provide a preliminary understanding of resource heterogeneity among coffee businesses, this study presents an illustration of the tangible and intangible assets of two coffee shops with different business models: a store-based coffee shop (Rimbun Café) and a mobile coffee business (Kopi Pablo). This classification is based on preliminary observations and serves to demonstrate how different business models rely on distinct combinations of resources and capabilities. According to the Resource-Based View (RBV), these resources constitute strategic assets that may contribute to competitive advantage and business sustainability.

**Table 1.1 Preliminary Interview Findings**

| **Informant** | **Business Type** | **Representative Quotation** | **Initial Interpretation** |
|---|---|---|---|
| Owner of | Store- | *"Customers don't come here* | Customer loyalty, café |

| | | | |
|---|---|---|---|
| Rimbun Café | based coffee shop | *just because of the coffee. Many of them return because they feel comfortable with the atmosphere we've created. They already know our baristas, and some have become regular customers for years."* | atmosphere, employee competence, and long-term relationships emerged as important intangible assets supporting competitiveness. |
| Owner of Rimbun Café | Store-based coffee shop | *"Opening a coffee shop is not just about buying expensive espresso machines. Anyone can buy the same equipment, but maintaining customer trust and consistently creating new experiences is much more difficult."* | Physical facilities alone are insufficient. Brand reputation and innovation capability become strategic resources. |
| Owner of Kopi Pablo | Mobile coffee business | *"We don't have a permanent café, so our biggest asset is our flexibility. Every day we move to locations where customers are gathering, and we actively promote our schedule through Instagram."* | Mobility, adaptability, and digital engagement represent important intangible resources supporting competitiveness. |
| Owner of Kopi Pablo | Mobile coffee business | *"Our investment isn't as large as conventional cafés, but customers recognize us because of our service and consistency. They often recommend us to their friends."* | Customer trust, word-of-mouth, and corporate image compensate for limited tangible assets. |
| Owner of Kopi Pablo | Mobile coffee business | *"Sometimes we change locations depending on events or customer requests. If business is slow in one place, we simply move somewhere else."* | Adaptive capability and operational flexibility become strategic advantages of the mobile coffee business model. |

**Source:** Preliminary interviews conducted by the author (2026).

The preliminary interviews indicate that coffee shop owners perceive competitiveness as extending beyond physical resources such as business capital, production facilities, or café interiors. Owners consistently emphasized the importance of intangible assets, including customer trust, brand reputation, employee competence, innovation capability, and long-term relationships. Interestingly, differences also emerged between conventional store-based coffee shops and mobile coffee businesses. While store-based coffee shops relied more heavily on customer experience created through physical facilities and atmosphere, mobile coffee businesses highlighted flexibility, mobility, digital engagement, and adaptive capability as their primary competitive strengths. These preliminary findings suggest that competitiveness results from the integration of tangible and intangible assets rather than from physical resources alone.

**Table 1.2. Preliminary Classification of Tangible and Intangible Assets of Coffee Businesses**

| Business | Tangible Assets | Intangible Assets |
|---|---|---|
| **Rimbun Café (Store-Based Coffee Shop)** | Financial resources; store facilities; coffee brewing equipment; raw materials and inventory; furniture and interior facilities | Brand reputation; employee competencies; innovation capability; customer loyalty; long-term customer relationships; business network |
| **Kopi Pablo (Mobile Coffee Business)** | Financial resources; office and production facilities; coffee brewing equipment; raw materials and inventory; mobile coffee cart and distribution vehicle | Registered trademark; entrepreneurial know-how; employee competencies; innovation capability; customer loyalty; supplier relationships; corporate image |

As presented in Table 1.1, the preliminary interviews and field observations reveal that coffee shop owners rely on different combinations of tangible and intangible assets depending on their business model. Rimbun Café, as a store-based coffee shop, places greater emphasis on tangible resources such as store facilities, furniture, interior ambience, and coffee brewing equipment to create a comfortable customer experience. However, the owner also highlighted that long-term competitiveness is strongly influenced by intangible resources, including brand reputation, customer loyalty, employee competencies, innovation capability, and long-term relationships with customers. These findings suggest that physical resources alone are insufficient to sustain competitive advantage without complementary intangible assets.

In contrast, Kopi Pablo, as a mobile coffee business, demonstrates a different strategic resource configuration. While the business possesses essential tangible assets such as a mobile coffee cart, brewing equipment, and production facilities, its competitiveness is primarily supported by intangible assets, including entrepreneurial know-how, adaptability, customer loyalty, supplier relationships, and corporate image. The owner explained that operational flexibility and the ability to quickly respond to customer demand have become critical factors in maintaining competitiveness despite having fewer physical resources than conventional coffee shops.

These preliminary findings indicate that coffee shop competitiveness is not determined solely by the ownership of tangible resources but by the strategic integration of tangible and intangible assets. Although both business models operate in the same industry, they employ different resource configurations to create value and sustain competitiveness. This observation is consistent with the Resource-Based View (RBV), which argues that firms achieve sustainable competitive advantage through the effective utilization of valuable, rare, inimitable, and non-substitutable resources (Barney, 1991). Nevertheless, the preliminary investigation also suggests that resource ownership alone may not fully explain business competitiveness. Coffee shop owners repeatedly emphasized the importance of customer collaboration, continuous innovation, and the ability to adapt to rapidly changing consumer preferences. Therefore, this study further explores how tangible and intangible assets, together with co-creation processes and owners' adaptability, contribute to the competitiveness of coffee shops in Padang City.

From the demand side, changes in consumer behavior toward mobile coffee businesses reflect evolving lifestyles among younger generations, who increasingly prioritize accessibility, convenience, personalized experiences, and flexible consumption patterns over traditional fixed consumption spaces (Amadea et al., 2025). In urban areas such as Padang City, consumers are attracted not only by the quality of coffee products but also by the unique experiences, social interaction, and convenience offered through flexible business models. Consequently, the coexistence of store-based coffee shops and mobile coffee businesses has created a distinctive competitive environment in which firms are required to strategically leverage both tangible and intangible assets. Tangible assets, including business capital, equipment, and physical facilities, provide the operational foundation of the business, while intangible assets, such as brand reputation, customer relationships, local identity, and social networks, serve as valuable resources that are difficult for competitors to imitate. The effective combination of these resources enables coffee businesses to enhance their competitiveness and achieve sustainable growth.

In recent years, Indonesia's coffee industry has witnessed the rapid emergence of mobile coffee businesses, commonly known as "Starling" (Starbucks Keliling) or coffee carts. Unlike conventional coffee shops that operate in permanent locations, Starling businesses utilize bicycles, motorcycles, modified vehicles, or portable coffee carts to serve customers in offices, campuses, public spaces, tourist destinations, and community events. This business model offers greater accessibility, lower investment requirements, and operational flexibility, enabling entrepreneurs to reach customers directly while responding to the increasingly dynamic lifestyle of urban consumers (Priana & Budiman, 2025). The Starling phenomenon has become an important component of Indonesia's informal coffee economy, demonstrating how mobility, social capital, and entrepreneurial flexibility contribute to business resilience in urban environments.

From the Resource-Based View (RBV) perspective, mobile coffee businesses possess a distinctive configuration of strategic resources compared with conventional store-based coffee shops. While store-based coffee shops generally rely on permanent physical facilities, interior design, customer seating capacity, and production equipment as their primary tangible assets, mobile coffee businesses operate with relatively limited physical resources and therefore depend more heavily on intangible assets, including entrepreneurial knowledge, social capital, customer relationships, networking capability, digital marketing competence, and operational flexibility (Barney, 1991; Hall, 1992; Grant, 2019). These intangible resources enable entrepreneurs to rapidly adapt their operating locations, respond to customer traffic, and build long-term customer relationships, thereby strengthening competitiveness through flexibility and resource reconfiguration (Teece, 2018).

The emergence of Starling businesses also reflects broader changes in Indonesian consumer behavior. Rather than merely seeking aesthetically designed cafés, many urban consumers increasingly value convenience, accessibility, affordability, and personalized service experiences. Consequently, mobile coffee businesses represent not only an alternative distribution model but also a strategic entrepreneurial innovation that integrates mobility, customer engagement, and digital interaction to create competitive value. However, previous studies have primarily examined Starling businesses from socio-cultural and consumer perspectives, while limited attention has been devoted to understanding how these businesses strategically manage tangible and intangible assets, engage customers through co-creation, and develop adaptive capabilities to sustain competitiveness. This gap provides an important opportunity for the present study to compare store-based coffee shops and mobile coffee businesses within the Resource-Based View framework.

Moreover, in increasingly dynamic and uncertain business environments, the possession of tangible and intangible assets alone is insufficient to ensure long-term success. Firms must also develop adaptive capabilities that enable them to integrate, reconfigure, and utilize their resources in response to changing market conditions and consumer preferences. Such adaptability is essential for responding to emerging trends including digitalization, sustainability, and growing consumer demand for authentic local products (Jafari-Sadeghi et al., 2021). In this context, the utilization of social media and digital knowledge management creates opportunities for MSMEs to generate value that aligns with customer needs, strengthen brand image, and stimulate innovation through continuous interaction and engagement with consumers (Yulianti et al., 2023). Coffee businesses that successfully combine physical resources, such as comfortable interior design and operational facilities, with intangible assets including strong branding, local identity, and customer relationships, while simultaneously developing marketing, innovation, and learning capabilities, are more likely to create distinctive value and sustain competitive advantage. This perspective is consistent with the Resource-Based View (Barney, 1991) and Dynamic Capability Theory, which emphasize that sustainable competitiveness arises not only from valuable resources but also from the ability to continuously learn, innovate, and reconfigure resources in response to environmental uncertainty (Teece et al., 1997).

Therefore, exploring the role of tangible and intangible assets in the context of coffee shops in Padang City is relevant for understanding how small businesses adapt to market dynamics while maintaining their local identity. This study is expected to provide an empirical contribution to the literature on the competitiveness of MSMEs in the creative culinary sector and offer new insights into growth strategies based on customer experience and social value. In this context, understanding intangible assets such as organizational culture, local brand narratives, and community engagement can be key to strengthening the position of local coffee shops against competition from large franchise chains (Rahman et al., 2020; Le & Nguyen, 2024). Thus, this study not only highlights the relationship between assets and business performance but also underscores the importance of values-based entrepreneurial strategies and local cultural authenticity.

In addition to asset management, a co-creation approach between business owners and customers is key to creating added value and strengthening business sustainability in the creative service sector, such as coffee shops. Based on Service-Dominant Logic (SDL) theory, value is no longer created unilaterally by producers, but rather through a collaborative process between service providers and users (Vargo & Lusch, 2008). Within this framework, customers are not merely recipients of services, but rather value co-creators, actively playing a role in shaping brand experiences and perceptions (Grönroos & Voima, 2013). This perspective is particularly relevant for the experience-oriented coffee shop industry, as every interaction from menu selection to the atmosphere becomes part of the social and emotional value creation process.

In the context of coffee shops in Padang City, co-creation practices can take various forms, such as collaborating with customers to design local specialty menus, determining interior design aesthetics, and participating in coffee-based community activities. These interactions create a sense of emotional ownership and increase customer engagement with the brand (Iglesias et al., 2019). Social media is also a crucial platform for expanding co-creation practices, where customers participate through user-generated content, reviews, and digital recommendations, organically building a positive business image (Dessart, 2020). A study by Rahman (2024) found that customer engagement in the digital realm strengthened the sustainability orientation of micro and small businesses in Indonesia by enhancing their reputation and market reach.

Furthermore, co-creation also plays a role in strengthening business innovation and adaptability, especially amidst intense competition and rapidly changing consumer preferences. Through direct customer feedback, businesses can adapt product and service strategies to market needs in real time, thereby reducing the risk of innovation failure (Ind et al., 2017). This approach aligns with the concept of open innovation, which emphasizes external collaboration in the value creation process (Chesbrough & Bogers, 2014). Coffee shops that successfully implement co-creation not only build emotional connections with customers but also create a local community-based innovation ecosystem. This strengthens the business's competitiveness and relevance in an increasingly fragmented market.

Thus, co-creation is not simply a marketing strategy, but rather a business paradigm focused on long-term relationships between service providers and users. In the context of Padang, a city with a strong cultural identity, co-creation practices can provide a platform for local entrepreneurs to integrate Minangkabau cultural values into the customer experience. Through authentic collaboration, coffee shops can create local-based differentiation and strengthen social connections among customers. Therefore, research on co-creation in the context of coffee shops in Padang is relevant for understanding how social, cultural, and digital collaboration can generate sustainable competitive advantage (Prahalad & Ramaswamy, 2004; Rahman, 2020; Iglesias et al., 2019).



Adaptability is a crucial factor in maintaining business continuity amidst rapidly changing environmental dynamics. In the context of small businesses like coffee shops, adaptability is not only the ability to survive but also a proactive strategy in responding to changes in consumer trends, technology, and economic conditions (Teece, 2018). Adaptive businesses are able to detect market signals early and transform them into opportunities through continuous innovation. At the operational level, this is reflected in coffee shop owners' decisions to adapt menus to local preferences, implement digital technology in order management, or create a space atmosphere relevant to the lifestyles of the younger generation. According to Lin and Wu (2014), adaptability is a crucial dimension of dynamic capabilities because it enables organizations to convert internal resources into competitive advantages that are resilient to external changes.

In Padang City, the phenomenon of adaptability is evident in how local coffee shops innovate by incorporating regional ingredients such as Solok Radjo coffee, palm sugar, or coconut creamer as product differentiation that emphasizes local identity. This approach not only strengthens its market position but also enriches the narrative of Minangkabau culture in a modern business context. Some coffee shops even adopt digital point-of-sale technology and social media-based marketing to expand their customer reach, demonstrating their ability to respond to technological developments (Rahman, 2024; Seo, 2020). Thus, adaptability is not only related to technical capabilities but also encompasses social and cultural dimensions that influence how businesses build emotional connections with consumers.

Furthermore, adaptability is also related to an organization's ability to engage in continuous organizational learning. This learning process enables business owners to evaluate existing strategies, identify weaknesses, and develop new business models that better align with environmental changes (Sinkula et al., 1997; Wang & Ahmed, 2007). In the coffee shop context, learning can occur through observing customer behavior, analyzing market trends, or engaging with digital community feedback. A study by Jafari-Sadeghi et al. (2021) confirmed that MSMEs with high levels of learning adapt more quickly to external disruptions and are more innovative in creating new products. Thus, adaptive capability is not only a result of existing resources but also the result of ongoing reflection and collective learning.

Adaptability also serves as a catalyst for the development of sustainable competitive advantage. In an uncertain business environment, coffee shops that adapt to changing consumer behavior, such as the increasing preference for sustainability and authentic experiences, have a greater chance of sustaining growth. A study by Rahman et al. (2020) in West Sumatra showed that adaptive entrepreneurship based on local social and cultural values can strengthen the resilience of small businesses amid economic pressures. This approach demonstrates that adaptability is not merely a reactive strategy but a form of dynamic capability that strengthens competitiveness through value-based innovation (Teece, Pisano, & Shuen, 1997; Eisenhardt & Martin, 2000).

By considering a combination of tangible and intangible assets, co-creation practices, and adaptability, this study seeks to explore how coffee shop owners in Padang City build competitive advantage and sustainable business growth. A qualitative approach through thematic analysis with the help of NVivo software allows for an in-depth exploration of the experiences, strategies, and adaptation patterns of these entrepreneurs. Theoretically, this study has the potential to enrich the literature on Service-Dominant Logic (Vargo & Lusch, 2008) and Dynamic Capabilities (Teece, 2018) in the context of MSMEs in developing countries. Practically, the research results are expected to provide strategic guidance for local creative entrepreneurs to increase resilience, innovation, and business growth rooted in local potential and community culture in Padang City.

## 1.2 Problem Formulation

1. How do coffee shop owners in Padang City manage and utilize tangible and intangible assets to develop and sustain their business competitiveness?
2. How does the co-creation process involving coffee shop owners and customers contribute to business competitiveness?
3. How does the individual adaptability of coffee shop owners in responding to changing trends, digital technology, and consumer behavior enhance business competitiveness and drive business growth?

## 1.3 Research Objective

The main objective of this research is to explore how coffee shop owners in Padang City develop and sustain business competitiveness and achieve business growth through the effective utilization of tangible and intangible assets, co-creation practices, and individual adaptability in a dynamic market environment. Specifically, this study aims to:

1. To analyze how coffee shop owners in Padang City manage and utilize tangible and intangible assets to develop and sustain business competitiveness.

2. To examine how the co-creation process involving coffee shop owners and customers contributes to business competitiveness.
3. To explore how the individual adaptability of coffee shop owners in responding to changing trends, digital technology, and consumer behavior enhances business competitiveness and supports business sustainability.

## 1.4 Contribution of Research

This research is expected to provide significant contributions in four main aspects: theoretical development, practical implications for companies, academic enrichment, and benefits for other stakeholders related to the creative economy sector, particularly the coffee shop industry in Padang City.

a. For Research

This study contributes to the enrichment of existing literature by integrating the concepts of tangible and intangible assets, co-creation, and adaptability within the framework of Service-Dominant Logic (Vargo & Lusch, 2008) and Dynamic Capabilities Theory (Teece, 2018). While previous studies have predominantly focused on large-scale enterprises or developed economies, this research extends these frameworks to the context of micro and small creative businesses in developing regions. Through qualitative thematic analysis using NVivo software, the study offers a deeper understanding of how coffee shop owners create value and sustain competitiveness by combining physical resources, social capital, and adaptive strategies (Barney, 1991; Hafiz Rahman, 2023). The findings are expected to serve as a theoretical bridge connecting resource-based and capability-based views in small business innovation studies.

b. For Company

From a practical standpoint, the findings of this research will help coffee shop owners and other small business entrepreneurs to formulate more effective strategies in resource utilization and market positioning. By understanding the interplay between tangible and intangible assets, business owners can design more sustainable value propositions and brand differentiation strategies. The study also provides insights into how co-creation practices can be used to strengthen customer engagement and loyalty through participatory experiences and digital interaction. Moreover, the emphasis on adaptability encourages entrepreneurs to continuously adjust their strategies in response to market trends, technological shifts, and changing consumer behavior, thereby enhancing long-term business resilience and growth.

c. For Academics

For the academic community, this study offers empirical evidence that deepens the understanding of how small enterprises in the creative economy navigate competitiveness and innovation. It enriches discussions within entrepreneurship, marketing, and strategic management disciplines by presenting a localized perspective rooted in the Indonesian business context. The research also provides methodological contributions through the use of thematic analysis and Nvivo-based qualitative coding, which can be replicated or expanded in future studies exploring similar phenomena in other creative sectors. Furthermore, the conceptual integration of Service-Dominant Logic and Dynamic Capabilities frameworks provides a new lens for analyzing value creation and adaptability in small-scale businesses.

d. For Other Parties

This research also provides broader implications for policymakers, educational institutions, and organizations that support the development of the creative economy. For policymakers, the findings can serve as a reference in designing programs and policies that encourage innovation, collaboration, and sustainability among small business actors. Educational institutions can utilize the results as teaching materials or case studies in entrepreneurship and creative business management courses. Meanwhile, for financial institutions or incubators, the research outcomes can inform the development of capacity-building initiatives and funding schemes aimed at empowering local entrepreneurs. Overall, this study contributes to strengthening the ecosystem of creative entrepreneurship at both the regional and national levels.

## 1.5 Scope of research

his study focuses on exploring how coffee shop owners in Padang City develop and sustain business competitiveness and achieve business growth through the utilization of tangible and intangible assets, co-creation practices, and individual adaptability.

The scope of this research is limited to the following aspects:

a. Object of Research: The research focuses on locally owned coffee shops operating in Padang City that have been established for at least one year and actively engage in creative business practices. These businesses represent micro and small enterprises that combine cultural values, aesthetic experiences, and innovation as part of their business identity.

b. Unit of Analysis: The primary unit of analysis is the coffee shop owner as the main decision-maker in business strategy, asset management, and customer engagement.

c. Research Focus: The study explores (a) how tangible and intangible assets are managed and utilized to create value and competitiveness; (b) how co-creation processes occur between coffee shop owners and customers; and (c) how adaptability enables business owners to respond to environmental and technological changes.

d. Methodological Scope: This study adopts a qualitative research design using thematic analysis with the assistance of NVivo 14 software. Data collection is conducted through in-depth semi-structured interviews with selected coffee shop owners in Padang City, supported by observation and document analysis to ensure triangulation and data validity.

e. Theoretical Scope: The study is grounded in the Service-Dominant Logic (Vargo & Lusch, 2008) and Dynamic Capabilities Theory (Teece, 2018), serving as conceptual frameworks to understand how value co-creation and adaptability contribute to sustainable competitiveness in the creative business context.

## 1.6 Systematics of Writing

The systematic structure of this research is organized into five chapters, each describing specific aspects of the study as outlined below:

**CHAPTER I INTRODUCTION**

This chapter explains the background of the study, problem identification, problem formulation, research objectives, research contributions, scope and limitations, and the overall systematics of writing.

**CHAPTER II LITERATURE REVIEW**

This chapter discusses the theoretical foundations related to key concepts such as candidate image, social media marketing, and brand image. It also presents previous studies, the conceptual framework of the research, and the theoretical basis for qualitative analysis.

**CHAPTER III RESEARCH METHODS**

This chapter outlines the qualitative research design, including the research approach, selection of participants (owners of coffee shops in Padang City), data collection methods, data analysis procedures using thematic analysis with NVivo software, and the process for ensuring data validity and reliability (credibility, transferability, dependability, and confirmability).

**CHAPTER IV RESULTS AND DISCUSSION**

This chapter presents the findings derived from the thematic analysis, including key themes and subthemes identified from interview data. The chapter also provides interpretations and discussions linking empirical findings to theoretical perspectives and previous studies.

**CHAPTER V CONCLUSION AND RECOMMENDATIONS**

This chapter summarizes the main conclusions drawn from the research findings, highlights the theoretical and practical implications of the study, outlines the research limitations, and provides recommendations for future research and practice.