

The Interplay Between Competition Intensity and Innovation in the Restaurant Business

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ABSTRACT

This study examines the intensity of competition in the restaurant industry and explores potential solutions to address it. This study used a qualitative design with a phenomenological approach. The study sample comprised restaurants in Surabaya, Indonesia. The sample includes four restaurant restaurateurs, six restaurant entrepreneurs, and six restaurant consultants as participants. The results of this study indicate that the intensity of competition in the restaurant industry is high, as determined by Porter's Five Forces analysis. The threat of new entrants and the bargaining power of suppliers were moderate. The threat of the bargaining power of the buyer, product substitution, and existing competitors is high. Most experts suggest that innovation is the key to overcoming intense competition. The study's findings also reveal that restaurateurs' orientations are divided into innovation- and cost-oriented approaches. Innovation (cost)-oriented restaurants have characteristics similar to differentiation (cost leadership) competitiveness. This difference in orientation impacts innovation activities aimed at addressing the intensity of competition, which can create deterrence in the face of high competition. This study has both academic and practical implications, suggesting that the innovations implemented should align with the restaurant's orientation to impact its performance positively.

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INTRODUCTION

Competitive intensity, a critical factor influencing the restaurant industry, refers to the degree to which restaurants compete for customers, market share, and profitability within a specific market. This intensity is shaped by factors such as the number of competitors, the similarity of their offerings, and the ease with which customers can switch between them. Highly competitive intensity significantly influences restaurant performance (Kankam-Kwarteng et al., 2020). In markets with intense competition, restaurants face constant pressure to improve their offerings, lower their prices, and enhance customer service to attract and retain diners. This environment fosters a dynamic landscape in which only the most adaptable and innovative restaurants can thrive (Bierbusse, 2025). The intensity of competition in the restaurant industry is determined by the region, type of food, and target market. For example, a highly competitive intensity would occur in urban areas that provide many restaurant choices compared to rural areas with limited choices. The same thing also happens regarding the types of food available; for example, restaurants that serve Italian and Chinese cuisine will face high levels of competition compared to other cuisines. This is because both types of cuisine are widely favored. Restaurants should understand the nuances of competitive intensity to formulate appropriate strategies.

In the modern era, the restaurant industry not only provides basic needs (food and beverages) but also offers many other things, such as social interaction, entertainment, and cultural experiences (Abishov et al., 2024). Restaurants are a social hub where people can gather, connect, and enjoy each other's company. Some restaurants have the concept of being an entertainment venue by offering live music, themed events, interactive games, and chef attractions that aim to attract consumers and enhance the dining experience. Furthermore, restaurants play an essential role in introducing culture and tradition through cuisine. It provides consumers with an experience to understand the culture and traditions of a particular ethnicity by enjoying its cuisine. This suggests that restaurants not only provide food but also contribute to the community as social factories that promote socialization.

Bakso Boedjangan from Cita Rasa Prima (CRP) Group utilizes the concept of restaurants as a social gathering place. Bakso Boedjangan innovated its restaurant design and product innovation (Darandono, 2025). The restaurant innovation was designed as a comfortable hangout for all its customers. In addition to the location, Bakso Boedjangan innovated its product by providing a variety of meatball variants with various price options from the cheapest to the most expensive. This concept was successful, Bakso Boedjangan experienced very rapid growth. In various major cities in Indonesia such as Jakarta and

Surabaya, Bakso Boedjangan was everywhere. However, unfortunately, this rapid growth could only last less than 5 years (Doyan Ayam, 2024). The same thing also happened with Mie Setan. Mie Setan introduced an innovative noodle product with a spiciness level ranging from 0% to 100%. This noodle was hyped among young people, thus driving Mie Setan's growth very quickly. However, unfortunately, Mie Setan was unable to compete with Mie Gacoan which came with a similar concept. Mie Setan closed its business before its fifth anniversary (Permana et al., 2025). This phenomenon is consistent with the results of a 2016 CNBC survey. A CNBC survey revealed that 60% of new restaurants fail in the restaurant industry, and 80% fail to reach their fifth anniversary. The primary reason is that start-up restaurants fail to understand consumer needs and location. CNBC reported that location is the primary factor contributing to start-up restaurant failure (Bellini, 2016). In contrast, several Indonesian restaurants, such as Bakwan Kapasari, Mie Tidar, and Mie Tunjungan, based in Surabaya, are low in innovation. Their concepts are very traditional, and their premises are also outdated. Product innovation is virtually non-existent. Yet, these restaurants have managed to survive for over 30 years. This phenomenon demonstrates the gap between concept and practice in the restaurant industry. Innovative restaurants tend to fail to sustain their businesses. This is the problem of this research. Why are restaurants that innovate well in their products, venue design, and production processes unable to survive? Conversely, restaurants with low innovation are actually able to maintain their businesses

This study uses industrial organizational (IO) theory and Schumpeter's theory to explain the phenomenon. IO provides a system for understanding how industry structure influences firm conduct and execution (Pelham & Lieb, 2011). At its center, the IO hypothesis states that the structure of an industry, including components such as the number and size of firms, the level of item separation, and the obstructions to passage, impacts the conduct of firms within that industry. This, in turn, influences the general execution of the industry, including benefits, proficiency, and advancement. The IO hypothesis provides a profitable focal point for examining the restaurant industry by making a difference recognizing the key auxiliary variables that shape competitive flow and impact the vital choices of restaurant administrators. By understanding the connections between industry structure, firm conduct, and industry execution, eateries can make more educated choices regarding estimating, item advancement, promoting, and other key activities. The application of the IO hypothesis can assist policymakers in planning controls that advance competition and development within the restaurant industry.

Schumpeter's hypothesis emphasizes the part of development as a driving constrain of competition and financial alter (Gikonyo et al., 2024). Joseph Schumpeter's hypothesis of "inventive devastation" highlights the transformative control of development in driving financial development and reshaping businesses. According to Schumpeter, development leads to the creation of modern items, forms, and trade models that disturb existing structures and render ancient innovations and ways of doing commerce out of date. This handle of imaginative pulverization is basic for long-term financial development because it powers firms to enhance and adjust to remain ahead of the competition. Schumpeter's hypothesis is especially significant in the restaurant industry, where development is vital for gaining a competitive edge and meeting the advancing needs and inclinations of clients. Restaurants that grasp development can adopt a transitional imposing business model position, gaining higher benefits until competitors mirror or create predominant developments.

The complex nature of the restaurant industry and the different exercises make it profoundly competitive (Abishov et al., 2024). Unlike numerous other businesses, the restaurant division includes a wide range of foundations, from fast-food chains to fine-dining restaurants, each catering to distinct client segments and offering interesting eating experiences. These differences contribute to the complexity of the industry and escalate competition. Restaurants compete not only with other restaurants but also with elective nourishment suppliers, such as basic supply stores, convenience stores, and food delivery services.

Integrating both IO and Schumpeter's theories provides a comprehensive view of the relationship between competitive dynamics and innovation strategies in the restaurant industry. A fuller picture of the competitive dynamics in the restaurant business can be obtained by combining ideas from IO theory with Schumpeter's theory. IO theory provides a framework for analyzing the structural variables that determine competition, whereas Schumpeter's theory emphasizes the importance of innovation as a source of competitive advantage. This integrated approach recognizes that industry structure and innovation are not independent forces but are interconnected and mutually reinforcing. For example, high competitive intensity, as analyzed through IO theory, can incentivize restaurants to invest in innovation, as highlighted by Schumpeter's theory, to differentiate themselves and gain a competitive edge.

This study aims to analyze how competitive intensity influences innovation in the restaurant industry by integrating Industrial Organization (IO) theory and Schumpeter's innovation theory. The study also seeks to identify the key structural factors driving innovation under different market conditions. How does competitive intensity affect innovation strategies in the restaurant industry? How can the integration of Industrial Organization and Schumpeter's

theories explain the relationship between competition and innovation in this sector? The novelty of this study lies in integrating Industrial Organization and Schumpeter's innovation theories to explain competitive dynamics and innovation behavior within the restaurant industry, a service sector often overlooked in classical economic and organizational theory research.

THEORETICAL FOUNDATION

Industrial Organization (IO) Theory

Industrial Organization (I/O) states that a company's performance is influenced by the industry, not the resources used by the company. The theory assumes that there is no difference in the resources used by companies in the same industry. The differences in existing resources are temporary because resources are mobile from one company to another. Company performance is influenced by industry characteristics such as industry size, industrial life cycle, barriers to entering the industry, economic scale, product differentiation, and others that determine the company's performance. Strategies are defined by the industry, and resources are allocated for their implementation.

The restaurant industry faces an oligopoly market structure (Waldman & Jensen, 2019). This industry has many restaurants and many customers. The level of competition in this industry is determined not only by price but also by the innovation of the food products offered by restaurants. Restaurants can set high or low prices, which will affect consumer demand. Consumers may switch to other restaurants for lower prices.

Market structure determines strategic conduct and subsequently the company's performance (Porter, 1981). Strategic actions can be related to policy (profit maximization or optimization, growth, sales), pricing (cost-plus, marginal cost, entry-detering price, collusive pricing, price leadership, price discrimination), marketing strategy, innovation, and technology change (Meilak & Sammut-Bonnici, 2015). In this study, Porter's five forces (P5F) were used to determine the intensity of competition in the market by paying attention to the characteristics of newcomers, suppliers, buyers, and substitute products/services.

Porter's Five Forces Analysis in the Context of the Restaurant Industry

Porter's five forces (P5F) were introduced in 1979 to understand the industry's appeal. The five forces are as follows: the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitute products/services, and the intensity of competition among existing competitors. The threat of new entrants, supplier bargaining, buyer attraction, and the

threat of substitute products/services determine the intensity of competition among competitors. These five forces reduce profitability, which in turn harms sustainability (Porter, 2008).

Entry barriers, such as high capital costs, strict regulations, and established brand loyalty, may shield existing restaurants from new competitors, potentially lowering competition intensity. High capital expenditures, such as those connected with leasing prime real estate, purchasing equipment, and recruiting employees, might make it difficult for new restaurants to break into the market. Similarly, complex and time-consuming licensing and permitting procedures can inhibit new entrants. Established brand loyalty can also pose a considerable barrier to entry, as customers may be hesitant to try new restaurants if they are already satisfied with their current choice. Lower entry barriers, on the other hand, can increase competition and encourage innovation by allowing new competitors to arise and challenge established restaurants (Abishov et al., 2024). The emergence of food trucks, pop-up eateries, and virtual kitchens has reduced entry barriers in the restaurant business, enabling business owners to test novel ideas and connect with clients without making the large upfront investments needed for conventional brick-and-mortar locations. As eateries try to stand out from their competitors and attract clients in a congested market, this heightened competition may encourage innovation.

The intensity of competition among current competitors is adversely affected by the high bargaining power of suppliers, which is influenced by several factors, including the number of suppliers, the suppliers' location, the uniqueness of the service, the ability to substitute, and the switching cost (Pringle & Huisman, 2011). The level of competition among current competitors is negatively impacted by high buyer bargaining power, which is influenced by the buyer's size, price sensitivity, ability to substitute, switching costs, and differentiation from competitors Kharub and Sharma (2017). The threat of substitute products/services negatively impacts the intensity of competition among existing competitors, and this threat is determined by the performance of substitute products/services, trend performance, switching costs, and buyers' addiction to substitution (Hubbard et al., 2015). The intensity of competition among existing competitors, in addition to being determined by the other 4F's, is also determined by the number of competitors, quality differences, other differences, customer loyalty, and switching costs (Uddin & Bose, 2013).

Schumpeter's Theory of Creative Destruction: Innovation as a Competitive Weapon

Schumpeter's theory of creative destruction highlights how innovation leads to the creation of new products, processes, and business models, disrupting existing market structures and rendering established firms obsolete (Gikonyo et al., 2024). This theory posits that the introduction of a radical innovation can create a temporary monopoly for the innovating firm, allowing it to earn higher profits and gain a competitive advantage. However, this advantage is temporary, as competitors will eventually imitate the innovation or develop even more superior innovations, leading to further disruptions and changes.

Restaurants that successfully innovate can gain a temporary monopoly position, earning higher profits until competitors imitate or develop superior innovations (Loh et al., 2024). For example, a restaurant that pioneers a new culinary technique or introduces a unique dining experience may attract a large following and command premium prices in the market. However, this advantage is likely to be short-lived, as other restaurants will quickly adopt similar techniques or develop their unique offerings.

This constant cycle of innovation and imitation drives long-term economic growth but also creates challenges for established restaurants. To remain competitive, restaurants must continuously innovate and adapt to changing customer preferences and emerging trends in the food industry. Companies that fail to adapt risk becoming obsolete and losing market share to more innovative rivals.

Product innovation in restaurants includes the development and introduction of new menu items, the application of unique culinary techniques, and the creation of innovative food presentation styles Gagic et al. (2014). New menu items can range from entirely new dishes to variations on existing favorites, while unique culinary techniques can involve the use of novel ingredients, cooking methods, or flavor combinations. Creative and innovative food presentation can improve the dining experience and leave patrons with lasting impressions.

RESEARCH METHOD

Research Approach

This research was qualitative. The qualitative research method in this study is phenomenological because this study aims to closely examine the interpretation of entrepreneurs/restaurant managers about their experiences, thoughts, and feelings (Ntara & Odongo, 2023). In dealing with threats during their time running their restaurants (Emzir, 2018). Interpretation is not an option, but

an integrated aspect of research (Gill, 2020). Individuals have always been in a rotating world, which means that everyone is in a culturally and historically conditioned environment and cannot step out of it. Existence is always set against a background that contextualizes the experience. Thus, individual cultures and traditions influence the understanding of an experience.

Research Subject

The subjects of this research are restaurants in Surabaya, Indonesia. This study uses four restaurant owners, six restaurant entrepreneurs, and six restaurant consultants. The subjects are listed in Table 1.

Data Analyze Technique

The data analysis technique in this study uses an induction-conceptualization approach with the following stages. Data were collected through in-depth interviews with key informants. Of course, open-ended questions, observations, and collecting documentation owned by the company were used. The complete interview answers were copied as they were into the interview protocol. From the data or information of the key informants, the results of the in-depth interviews were then classified under a category label using NVivo. Answer patterns were formed based on all categories using NVivo, which were created for each research problem. Labeling or naming symbols on important things in the answer pattern using NVivo. A conceptual definition was given to each label or symbol name using NVivo. Conceptualizing, one concept is related to another. Constructing a model describes the relationship between propositions.

FINDINGS

The Threat of New Entrants

There are three main findings on the first force of P5F: 1) new entrants are easily entered when restaurant investment is low; 2) the threat is low when the old player restaurant has better quality and concept; and 3) this force can minimize the bargaining power of the supplier. The first finding is that the threat is high when the market they enter is a middle-low costumer. New entrants can easily enter the industry. The following is the result of an interview with JS: JS responded to the new entrant threat by pointing out that restaurant investment was not considered significant by some entrepreneurs. Many entrepreneurs in other businesses that had nothing to do with food were tempted to enter the restaurant industry. However, due to the small risk of financial loss for them (in case of failure), they were not seriously engaged in their restaurant business.

Table 1.
Informant and Occupation

No	Informant	Reviewer Category	Occupation
1	YC	Restaurant manager	Operational manager OHD dan LP
2	JUL	Restaurant manager	General Manager WN, HOW, WO, WK
3	IK	Chef R & D	Executive chef research & development BBRF
4	FHL	Restaurant manager	Manager ZP
5	HLP	Restaurant owner	A home-cooked noodle entrepreneur who is in the process of opening a restaurant but full of doubts; also a cooking course instructor in Surabaya
6	ESR	Restaurant owner	ABBD depot owner and culinary lecturer in a cooking course in Surabaya
7	CD	Restaurant owner	Beauty doctor, former owner of NOM café, is trying to get up to start a new café business
8	AH	Restaurant owner	Restaurant owner NKA
9	AP	Restaurant owner	Owner OC
10	SW	Restaurant owner	Owner DPKCB
11	YA	Restaurant founder, manager, and consultant	WRKT
12	NEM	Restaurant manager, consultant dan culinary class instructor	Former manager at WRKT Surabaya, culinary arts lecturer in the city of Batu
13	LFN	Restaurant consultant and Catering entrepreneur.	Chef, Restaurant consultant in Surabaya, and catering entrepreneur
14	JS	Restaurant investor, consultant, culinary academy owner.	Restaurant SX, Restaurant and coffee NOM, WRKT, MBTM
15	MYRR	Restaurant consultant, owner, and culinary class instructor	Consultant and owner of MAK, culinary lecturer in the city of Batu
16	HWS	Tourism observer and consultant	Retired East Java Provincial Tourism Officer, seminar speaker, researcher, and tourism consultant

The second finding is that new entrants hardly enter the industry; therefore, the threat is relatively low. The informants argued that newcomers did not easily enter the restaurant industry (stalls were exceptions) because they required: 1) commitment, endurance, and consistency in the long term; 2) a business place in the right location; 3) considerable capital; 4) expertise and experience in the culinary field; and 5) licensing, standardization, and certification. In addition, the solution to the new entrant threat is innovation, starting from thoroughly understanding the market (consumers and competitors) to create a restaurant concept and new menu. The disturbing and dangerous newcomers are those

with large capital and good reputations, as seen in the opinion of these two informants.

"The entry of a new brand into the market is also one of the threats to existing players, and it is not uncommon for new entrants with large capital (from hundreds million to billions) to be able to open dozens of outlets in a year, with a lot of capital as well, and of course they have also done market research, initial capital calculations, and of course are very familiar with regulations from both the local and provincial governments."(YC)

"Moreover, competitors who already have a good reputation who have larger capital certainly have a great influence on small restaurants that have limited capital and those that do not have a reputation, of course greatly add to the burden for small depots in the restaurant area." (ESR)

New entrants need to innovate to enter a market, but it is not easy to make the right innovations because new players are not familiar with the market. Meanwhile, long-time players who have known the market for many years can innovate more easily in accordance with the market. The ability to innovate according to market needs is key to dealing with the threat of new players.

The third finding is the good side of the threat of new entrants. In contrast to the other informants, YA pointed out the advantages of new entrants. There is a negative correlation between the entrance of newcomer restaurants and the bargaining power of suppliers. The more new restaurants enter the market, the more new suppliers enter the market, and the weaker the bargaining power of the suppliers.

With the proliferation of restaurants/café outlets that sell noodles, the level of supplier existence automatically increases. The suppliers then set their prices low to be competitive, which benefits restaurants. In addition to setting low prices, suppliers also accept orders with special requirements, such as noodles of various thicknesses, noodles in various elasticity, and width. It can be concluded that when we do business in a trending sector, it will strengthen our bargaining with suppliers to determine the character of our products and provoke us to be more creative and innovative with materials." (YA)

As in the case of YC, who is not worried about the quantity of newcomer restaurants, YA also believes that the quantity of newcomer restaurants does

not threaten the performance and sustainability of existing restaurants but rather helps the performance and sustainability of existing restaurants through a decrease in the bargaining power of suppliers and an increase in creativity and innovation. The number of bamboo basket suppliers has increased along with the number of dim sum restaurants. The number of claypot suppliers is increasing along with the number of claypot restaurants. The addition of new suppliers of steamer bamboo baskets and claypots decreases the bargaining power of steamer bamboo basket and claypot suppliers as a whole. The more intense the competition between restaurants, the more innovative the ingredient demands from suppliers, forcing suppliers to also be innovative in processing according to restaurant demand.

Furthermore, as depicted in Figure 1, the findings reveal that the threat of new entrants is moderate. Old players have equipped themselves with large capital, strong consistency, long experience, commitment, endurance, licensing, strategic location, and expertise. This prevents new entrants from sustaining themselves, although they can easily enter. The positive side of the threat is that new entrants will make the new supplier so that the bargaining power of the supplier can be reduced. This allows older players to maintain their business. The solution to the threat of new entrants is innovation. Old players can innovate by understanding the market so that they can refine the restaurant concept, create a new concept, and create a new menu.

The Threats of Supplier Bargaining Power

The threat of supplier bargaining power is moderate, as shown in Figure 2. The bargaining power of suppliers depends on the ingredient types and the restaurant's strategy. Suppliers have high bargaining power due to some factors, such as the small number of suppliers, the unique ingredients sold by suppliers, special specifications, and seasonality; hence, the availability is limited, and using ingredients that are different from the ingredients sold by these suppliers will result in significant changes in the quality of food. Suppliers who serve the restaurant well – kindness in listening to complaints and accepting claims, consistency in product quality and delivery, kindness in quoting prices, and leniency in payment collection – have higher bargaining power over restaurants.

Figure 2 suggests that restaurants can undermine the bargaining power of suppliers by becoming special buyers who buy in bulk, frequently, continuously, and in cash. Although innovation is not mentioned in the solution to supplier threats in Figure 2, avoiding dependence on a single supplier requires innovation, such as finding new materials that can substitute the usual materials, self-importing, self-cultivating, self-producing, and figuring out new techniques

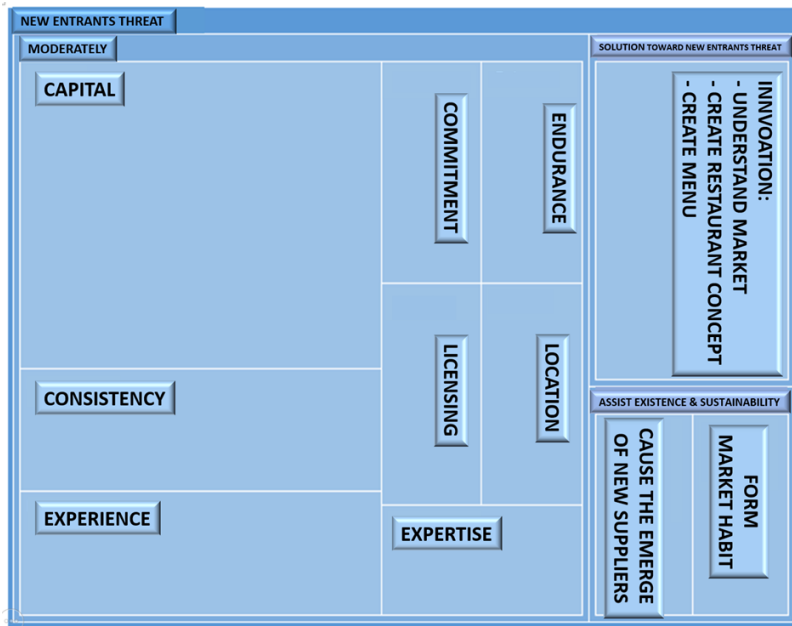


Figure 1: New Entrants Threat Chart (Source: NVivo output)

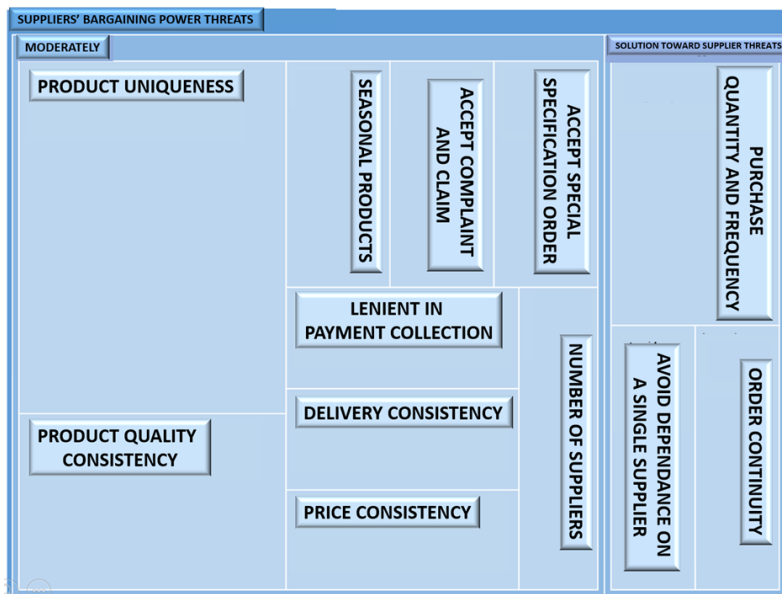


Figure 2: Supplier Bargaining Power Chart (Source: NVivo output)

in processing new materials so that they can produce finished products of the same quality.

Another informant pointed out the innovations he was making, which ultimately weakened his dependence on suppliers. He weakened the bargaining power of suppliers. The innovation he carried out was the fattening of crabs through vertical cultivation, also known as crab apartments. The innovation made him no longer dependent on suppliers and the season (the full moon season).

The Threat of Buyer Bargaining Power

As shown in Figure 3, the threat of the bargaining power of buyers is high. The combination of a large number of restaurants with their own characteristics and the characteristics of customers who like to try everything new, whether food, service, or atmosphere, makes the bargaining power of buyers high, and this will be a threat to the performance and sustainability of the restaurant.

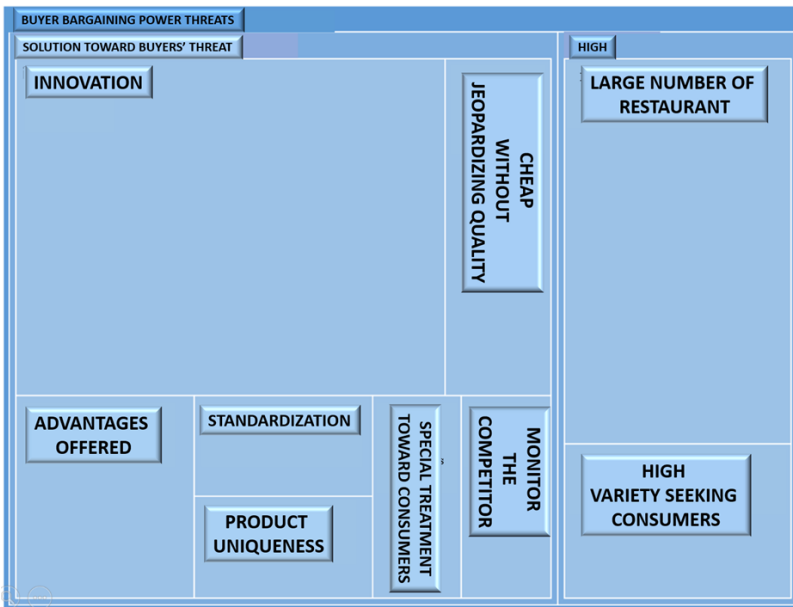


Figure 3: Buyer Bargaining Power Chart (Source: NVivo output)

The bargaining power of buyers depends on several factors. The results of the interviews suggest several solutions to increase the bargaining power of restaurants, including standardizing taste, portions, and service; following gadget technology, social media, and online sales; a solid work team including market analysts, R&D, operations, and QC; attention to customers and

competitors, understanding the market and innovating; always learning to be able to know the market, to be innovative, and to be able to turn ideas into products and then into a business with good profitability.

“The power of a restaurant’s bargaining power over customers depends on the advantages of what we offer to customers. We have to understand the market and innovate”. (IK)

“The bargaining power of the buyer is also determined by the restaurant itself. It is important to understand the market. The market is basic. If it is not based on the market, all efforts are futile. Everything we do is for the buyers. It is also important to understand competitors. By knowing the competitors well, we will win the competition. Innovation is also market-based. Innovation is determined by the market we are in. To be able to get to know the market and competitors, to come up with innovative ideas and turn them into products and then into businesses, all of that needs learning.” (JS)

The bargaining power of the buyer depends on the restaurant. Restaurants that serve quality food and are difficult to imitate in the niche market have weak bargaining power. Otherwise, restaurants that serve common food, usually with a middle-low customer segment, have strong bargaining power of buyers.

Products/Services Substitute Threat

Most people perceive substitution products/services as similar products/services from competitors, but not the informants in this research. As shown in Figure 4, informants mentioned that food made by family at home and frozen food stored in supermarket freezers are substitutes. Substitutes can be not only similar products/services from competitors or products from other industries. Those that can substitute cheap spicy noodles from Wizzmie are: Cheap spicy noodles from Gacoan (same concept noodles for the same price for 9,500-12.000 rupiahs per bowl), chicken noodles from Mie Mapan (in the same category, namely noodles), frozen chicken noodles in supermarkets (food in general), or even cinema tickets (budget competition). Furthermore, home cooking, personal chef services, food sellers in pick-up cars, and food sellers who use carts can all be substitutes.

“There are substitutes for any kind of product/service offered and sold in the market. Food cooked at home is considered a

substitute. The same food that is made slightly differently, sold in a different way, or sold at a very cheap price is a substitute. Frozen food in supermarket freezers is a substitute. Therefore, a restaurant's existence is highly dependent on innovation. The restaurant that has consistently innovated is Pizza Hut. The menu changes frequently and there is always something new without eliminating the previous." (JS)

If the restaurant's market segment is young consumers, such as millennials and Gen Z, then the substitute threat will be higher. Fortunately, JUL emphasizes that although restaurant customers have variety-seeking behavior, this does not mean that there are no loyal customers. Substituting a dish that has become a routine habit in the past, and whose quality has been embedded in the minds of consumers, is not easy. Some satisfied and loyal restaurant customers may have diversity-seeking behavior, so they will look for other products and restaurants at certain times, but it is just to cover up their boredom. In the end, they will return to the previous product or restaurant that already has a mind share and heart share.

Figure 4 reveals that the threat from product/service substitution can be reduced by innovation, offering cheap food but still of good quality or offering expensive food but with super quality and excellent service. Customers look for food that provides special tastes and comfort to make them come back to the restaurants.

The Threat of Competition Intensity among Existing Competitors

Figure 5 advises that competition with the existing competitors is high because there is a large number of restaurants in Surabaya.

It becomes higher when the restaurant chooses to serve the low-income segment of the market. According to an informant, the intensity of competition differs at each income level. The further down, the greater is the intensity of competition.

"Speaking of competition, the question is at which level of competition – level 1, level 2, level 3, level 4, or level 5? In the low-income segment, the number of buyers is higher than in the higher-income segment. Competition will be even tighter at lower levels. Determining the level at which we will open a restaurant and sell is identical to determining the selling price. After that, innovate. Innovation is different at each level". (JS)

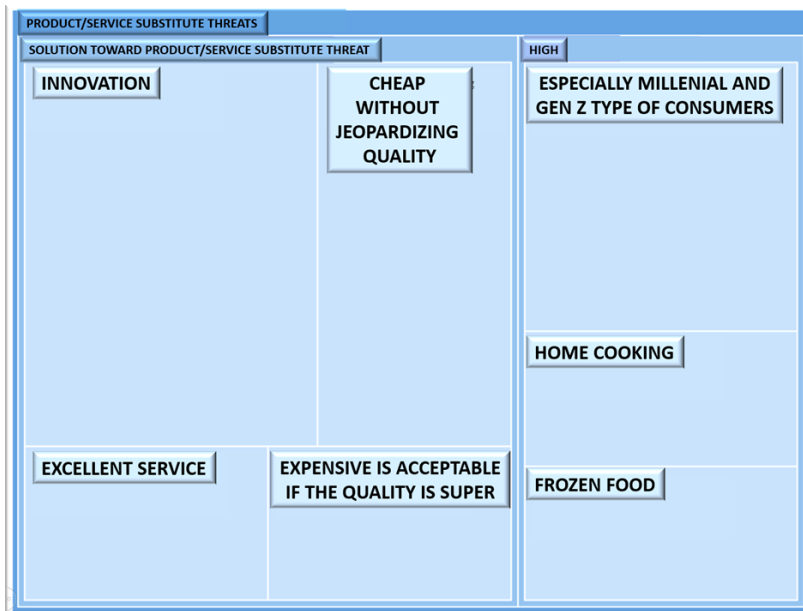


Figure 4: Product/Service Substitute Threat Chart (Source: NVivo output)

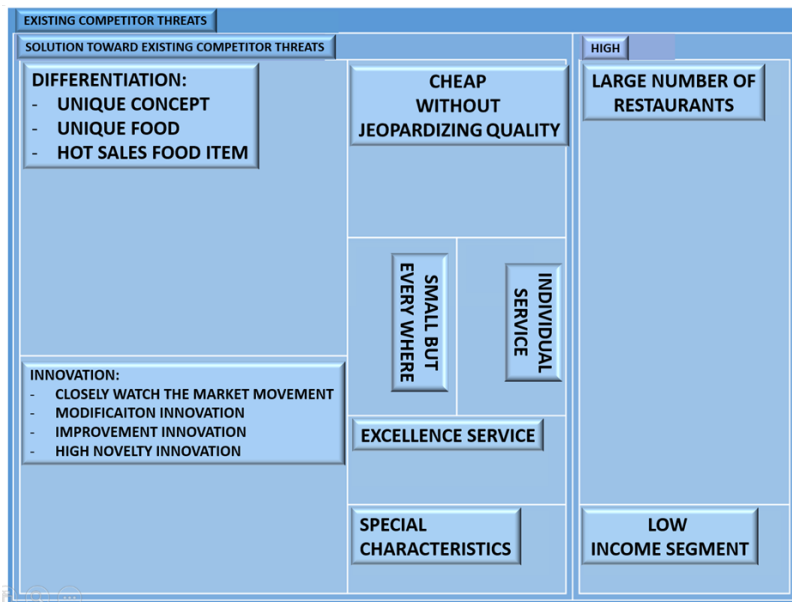


Figure 5: Existing Competitor Threat (Source: NVivo output)

Some solutions to attenuate existing competitor threats are: 1. Be innovative – this could mean making something a little better, or just making something a little different, or something completely new. Innovation directs restaurants to a differentiation strategy, enabling them to answer why consumers should come to the restaurant. Differentiation is making a product, service, atmosphere, or brand distinct from existing competitors; it can be a consequence of innovation, but not all differentiation is innovation. A restaurant might differentiate itself through branding, pricing, customer service, or targeting a niche market, none of which involve creating something new. 2. Choosing cost leadership instead of innovating – cost leadership does not mean sacrificing quality for the sake of low cost and low price. 3. Emphasizing excellent or individually tailored services. 4. Duplicating restaurants and letting them spread to various markets.

Of all the informants in this study, only one relied on cheap prices to engage in competition, as can be seen below:

“The number of noodle sellers is large. There are also many spicy noodle sellers. The industry continues to grow. My noodles are no different from other noodles. I just rely on cheap prices. The selling price is 11,000 rupiah for all the variants. The variants were original and spicy levels 1–5. For packaging, I use stereo foam and if you want thin wall you need to pay 1000 rupiah more.” (HLP)

Some other informants rely on innovation as a more important factor in competition without trying to reduce the selling price of products and believe that customers understand and can accept higher prices for more value.

“What they pay is what they get, and they look more at quality rather than price.” (YC)

“Price is undeniably one of the important factors for guests in making their choice. However, once again, I say, that as long as we can provide excellent products and services that are in accordance with our standards, then price will not be a problem” (JUL)

Furthermore, several other informants compete by innovating to be different from competitors but still set prices below the price set by competitors because they believe that low prices are the most important factor in choosing a restaurant:

“Fierce competition requires a unique concept that does not exist anywhere else. Restaurants can have the same menu at competitive prices, but to attract customers, they need to create a different concept from existing competitors. Restaurants with food and beverage menu prices that are cheaper than competitors but have a good room interior design and atmosphere are made to hang out and pleasant service where restaurant human resources are responsive and attentive to consumer needs which is ultimately able to maintain customer loyalty to a restaurant brand.” (ESR)

All informants agreed that competition between restaurants in the industry is very intense but not a big problem because restaurants can innovate in various aspects such as food and beverage menus, cooking processes, grooming and waiter capabilities, service processes, and the physical environment.

Restaurateur’s Attitude toward Innovation

Regarding attitudes towards innovation, this study found two management groups: an innovation-oriented management group and the second group as a cost/price-oriented management group.

Innovation-oriented restaurateurs have the characteristics shown in Figure 6: they perceive consumers as quality-oriented, think positively about competition, are proactive, are inclined to innovate to create their own market or battlefield, and dare to accept risks.

These characteristics are found in their answers, as shown in the following example.

“The threat of product substitution is not very significant in the culinary industry, because what is paid is what is obtained, and they look more at quality.” (YC)

“For me, I tend to innovate new products or services that have never existed at all even though there will be difficulties at the beginning in terms of exploring menus/products, raw materials, tastes, shapes, target markets and buyers will not necessarily be able to immediately accept these new things”. (YC)

“If you want to win, do not fight on people’s battlefields, Create your own battlefields: innovate as much as possible. Think differently”. (SW)

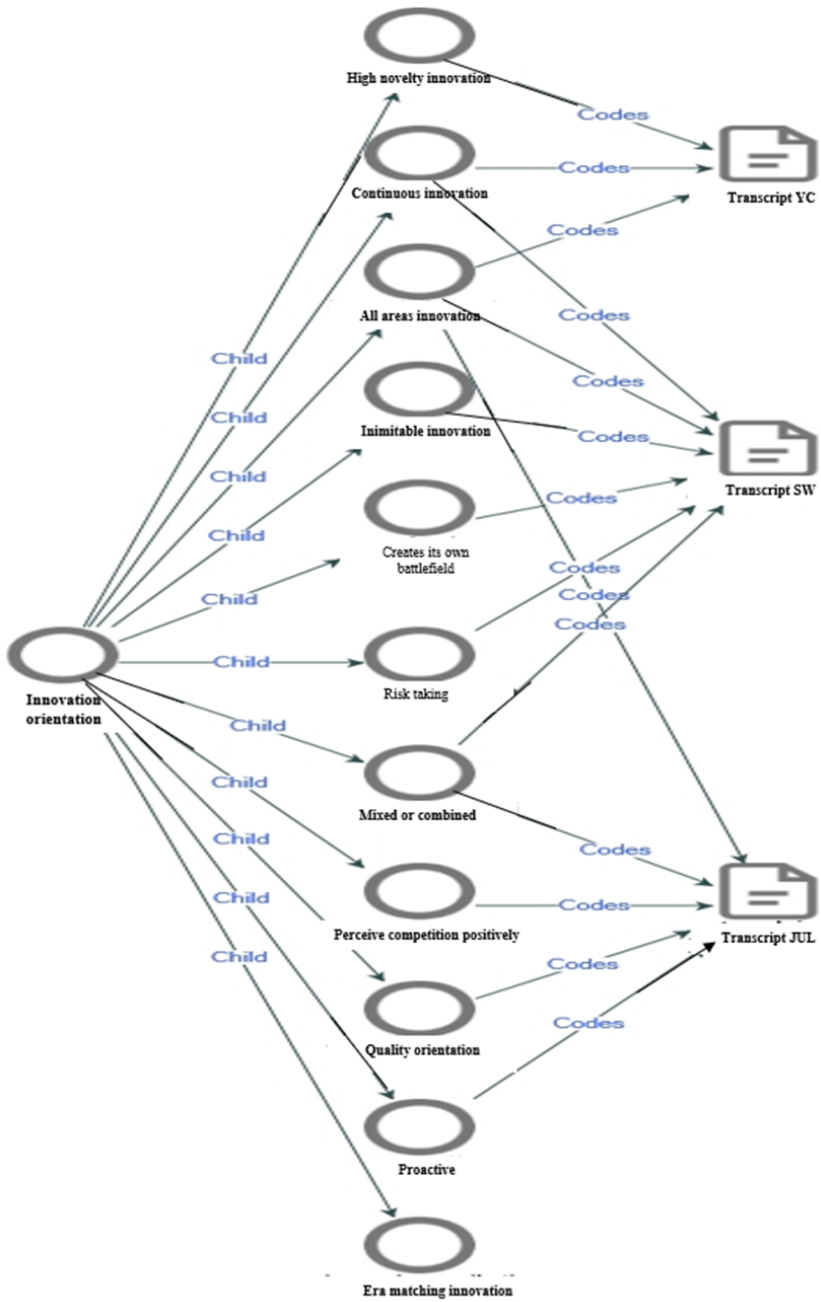


Figure 6: Innovation-Orientation Project Map (Source: NVivo output)

"I often use illustrations: if we are a homegrown football team, we should never dream of winning against a team of the same class as FC Barcelona at their home, he said. However, if you play it on a village field with many stones and mud, there is a possibility of winning. The second illustration is as follows: if I, as a newcomer, want to sell grilled rice, and I sell basil grilled rice, then I will be a monthly seller of grilled rice. To be able to sell, I sold kecombrang's grilled rice. This was proven by the high sales volume of our kecombrang grilled rice. In fact, many others imitated after that." (SW)

Cost/price-oriented restaurant owners have the following characteristics Figure 7: they believe consumers are price-oriented, tend to compete on prices, match the market, are conservative, cautious in deciding and acting, sensitive to expenses, reluctant to spend money on innovation, and risk-averse.

These characteristics are found in their answers, such as the following example.

"My target is the middle class. Even though my target is the middle class, I am serious about food costing so that I am able to sell at a low price without sacrificing quality." (AH)

"New entrants cannot enter a market with a new product that is completely unknown to the market because large funds are needed to educate the market and instill a new habit in the market. The risk of failure is high. Differentiation is better achieved with one or two new products in addition to the main products that are the same as competitors. Differentiation can also be done in the service process." (YA)

"Innovate by modifying old products that are already known so that it is not difficult to be marketed". (NEM)

"For me, I am more interested in modifying existing product, because there are buyers for the existing product and we do not need to spend expenses to educate market; adding a new value to the existing product is already sufficient to differentiate our product with competitor's product". (AH)

Cost-oriented management also innovates, and these innovations take the form of improvements, changes, and improvements to something that already exists.

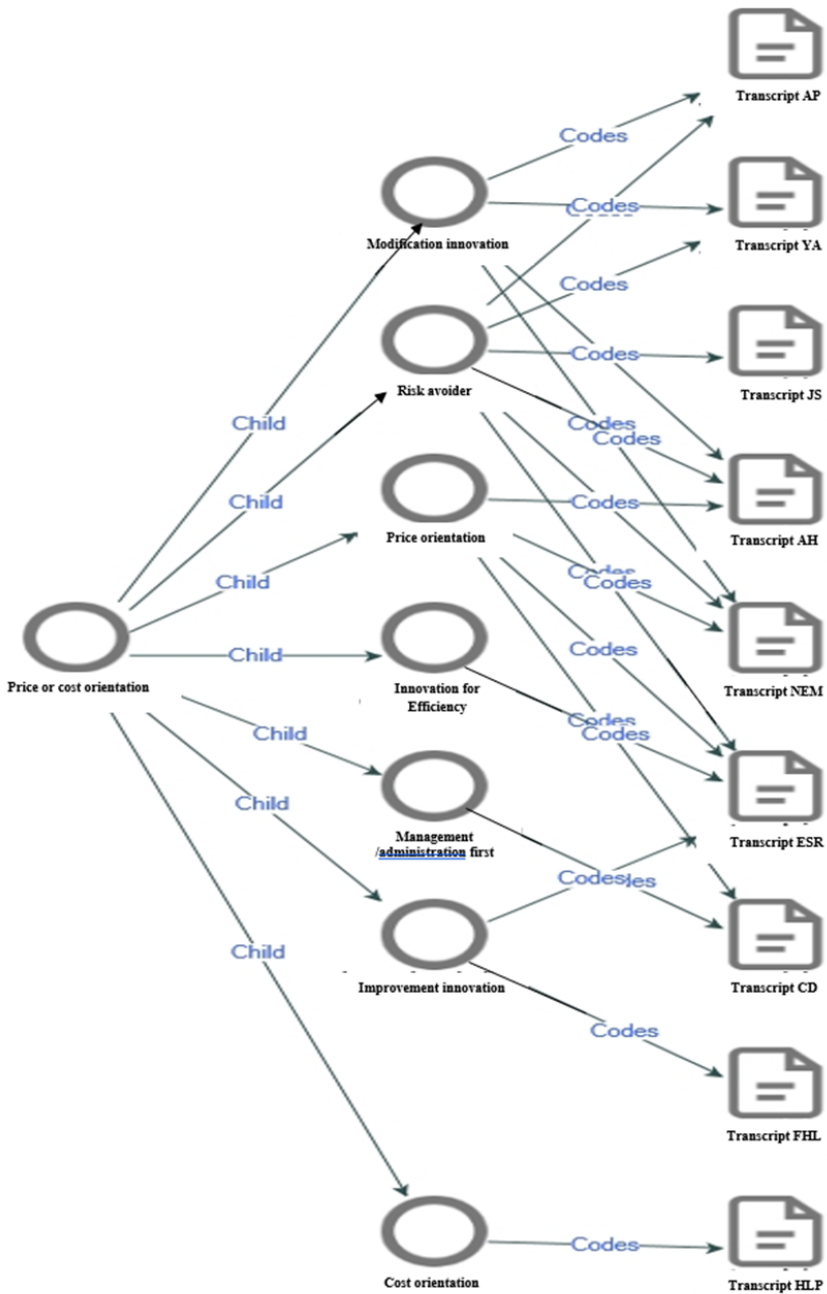


Figure 7: Cost or Price-Orientation Project Map (Source: NVivo output)

These innovations are the most common and can be carried out by anyone at any managerial level. These innovations do not require large costs, do not consume much time, and have the lowest risk of failure.

This research supports Burke et al. (2009) because there is no denial in this research of the role of competitive forces in sustainability, but innovation is the best sustainability strategy. This research also supports Larry et al. (2014) as it agrees with the suggestion to put innovation as a new strength in P5F.

Restaurant Characteristics and Restaurateur Characteristics

Restaurants managed by innovation-oriented restaurateurs, such as **JUL, SW, and YE** (see Table 2), are LP, OHD, DPKCB, WN, HOW, WE, and WK. These restaurants have medium to large capital, serve the upper segment market, and have an established status.

Restaurants managed by cost-oriented restaurateurs such as AH, AP, CD, ESR, FHL, HLP, IK, JS, LFN, NEM, and YA (see Table 2) are MG, WRKT, NOM, OC, and BBRF. These restaurants are almost all small capital restaurants, serve the lower to middle income segment, and perform poorly to moderately. This fact is supported by empirical studies. Innovation in low-income markets is mainly characterized by adaptation and adjustment to products with an emphasis on incremental rather than radical innovation. Earning pressure negatively impacts exploratory innovation, and the negative effect of the pressure to produce on exploratory innovation is reduced when competitors are also under pressure to produce Chang et al. (2019).

DISCUSSIONS

The Intensity of Competition and Innovation

Figure 8 shows that the P5F analysis of the restaurant industry reveals that the threat of new entrants and the bargaining power of suppliers are moderate, but the threat of the bargaining power of buyers, product substitutes, and existing competitors are high. Therefore, it can be concluded that the competitive intensity of the restaurant industry is high.

The intensity of competition in the restaurant industry catalyzes innovation. Schumpeter stated that innovation is the result of creative destruction that will replace old products or production processes (Alam et al., 2022). To maintain business in such a highly competitive industry, innovation is the weapon according to Schumpeter's theory of creative destruction. Several previous studies have shown that the relationship between competition intensity and

Table 2.
Restaurant Characteristics and Restaurateur Characteristics

Restaurateur	Restaurant Performance	Restaurant Finance	Market Segment
Cases\ah	Low	Small	Medium
Cases\ap	Low	Small	Low
Cases\cd	Low	Medium	Medium
Cases\esr	Low	Small	Low
Cases\fhf	Upper	Large	Medium
Cases\hlp	Low	Small	Low
Cases\ik	Medium	Medium	Medium
Cases\js	Low	Medium	Medium
Cases\jul	Upper	Large	Medium
Cases\lfn	Low	Small	Low
Cases\nem	Low	Small	Low
Cases\sw	Upper	Medium	Upper
Cases\ya	Low	Small	Low
Cases\yc	Upper	Large	Upper

(Source: Interview - NVivo Output)

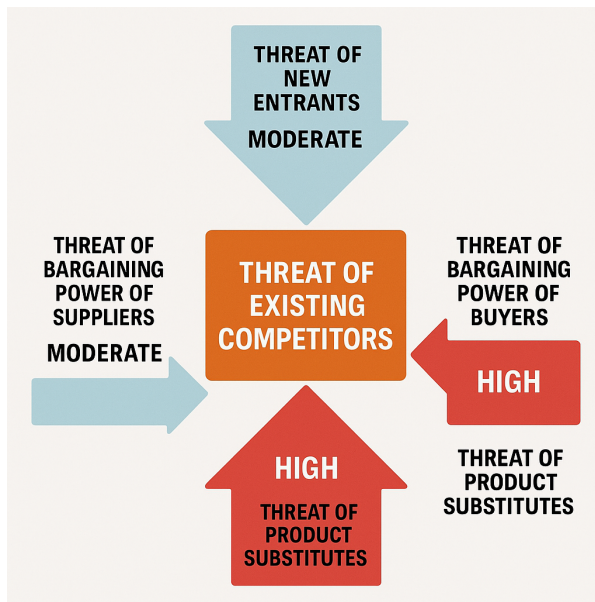


Figure 8: P5F Analysis of Restaurant Industry

innovation is an inverted U-shape in manufacturing companies. This indicates that high levels of competition result in high uncertainty, so manufacturing companies tend to hold back on conducting R&D. So that the innovation carried out becomes low (Huang, 2023; Marshall & Parra, 2019; Mendi & Costamagna, 2017). Nigg-Stock et al. (2023) shows that the relationship between competitive intensity and innovation is different depend on the kind of innovation. Price competition reduces the efficiency of exploitative innovation. However, product and quality competition will increase the efficiency of exploratory innovation. The findings of this study indicate that competitive intensity increases innovation, as innovation is a solution to deal with the intensity of competition. What innovations should restaurant industry business people implement? Innovations are obtained by understanding market tastes and paying attention to changes in market tastes. This innovation can be in the form of reconceptualizing restaurants, creating new menus, modifying menus, or providing something new, such as a new dining experience. Innovation can help restaurants stay in business. The findings will support this proposition.

P1 : The intensity of competition drives restaurants to innovate to maintain their business.

The Restaurateur Orientation, Intensity of Competition, Innovation, and Performance

This study reveals two types of restaurant orientations: innovation and cost. Innovation-oriented restaurateurs are characterized by high novelty innovation, continuous innovation, all areas of innovation, inimitable innovation, risk taking, quality orientation, positive perception of competition, and proactivity. Those characteristics are similar with the differentiation competitiveness (Porter, 1981, 2008). Differentiation competitive advantage tends to be proactive by launching various new products Fisk (2016). New products result from innovation activities. Restaurants with this competitive advantage are usually first movers or late movers who make improvements and modifications to the first mover. Product modifications and improvements are desired by the market. Restaurants with this competitive advantage usually have an upper-class market share and serve fine-dining food.

On the other hand, restaurants with a cost orientation have the characteristics of modification innovation, improvement innovation, risk avoidance, price orientation, and innovation for efficiency. These characteristics are similar to those of cost leadership competitiveness. Cost leadership restaurants serve the middle-low market, as capital investments are relatively small. The market share is larger than that of the upper class, so the intensity of competition is higher.

These types of restaurants tend to innovate less because cost efficiency is their primary focus. The relationship between competition and innovation for cost oriented-restaurants is inverted U shape, as the results of the previous studies (Huang, 2023; Marshall & Parra, 2019; Mendi & Costamagna, 2017). These findings lead to the following proposition:

P2a : The indirect positive impact of competitive intensity on performance through innovation is higher in innovation-oriented restaurants than in cost-oriented restaurants.

P2b : The indirect positive impact of competitive intensity on performance through innovation is higher in cost-oriented restaurants with innovation than in cost-oriented restaurants without innovation.

P2c : The inverted U-shaped relationship between competitive intensity and innovation occurs in cost-oriented restaurants.

CONCLUSIONS

This study concludes that the intensity of competition faced by the restaurant industry can be overcome by innovation. Innovation is the key to facing competition so that restaurants can maintain their business. Second, the characteristics of the restaurant owner are divided into two types: innovation and cost orientation. Innovation (cost)-oriented restaurants have characteristics similar to differentiation (cost leadership) competitiveness. These differences in orientation are believed to influence the impact of competitive intensity on innovation. Competition drives innovation, which in turn affects performance. The impact on performance is greater in innovation-oriented restaurants than in cost-oriented restaurants. Cost-oriented restaurants that innovate in the face of competitive intensity will perform better than those that do not. The results of this study also found that an inverted U-shaped relationship occurs in cost-oriented restaurants. This is because restaurants with this orientation tend to be effective at low levels of competitive intensity.

This study has both academic and practical implications. The academic implications of this study are as follows: first, the findings in the form of propositions can be tested empirically. Second, further research can compare the relationship between competitive intensity and innovation in manufacturing and restaurant companies. The practical implications are as follows: innovation is a solution to the intensity of competition. Second, restaurants with an innovation orientation should adhere to the principle of continuous innovation. Third, innovation is a way for restaurants to maintain their businesses.

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