# The Influence of Marketing Mix, Service Quality, and Business Innovation on Business Performance Mediated by Market Advantage in Café Coffee MSMEs in Greater Malang

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A R T I C L E I N F O

A B S T R A C T

The café coffee industry in Greater Malang is growing rapidly, creating intense competition among micro, small, and medium enterprises (MSMEs). This condition requires café owners to strengthen marketing strategies, improve service quality, and develop continuous business innovations to maintain their competitive position. This study aims to analyze the influence of the marketing mix (7P), service quality, and business innovation on business performance, with market advantage as a mediating variable. A quantitative explanatory research design will be employed, using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS Version 4. The sample consists of 205 café owners selected through proportional random sampling from a population of 422 cafés across Malang City, Malang Regency, and Batu City. Data will be collected using a Likert-scale questionnaire adapted from validated prior studies. This research is expected to contribute theoretically by developing an integrated model of marketing strategy, innovation, and performance in MSME cafés, and practically by providing insights for café owners to enhance their competitiveness in a dynamic market environment

## INTRODUCTION

Companies operating in the service sector face competitive characteristics that differ from those of product-based companies, as the value offered to consumers lies not only in the final outcome but also in the service process, interactions between service providers and consumers, and the experiences perceived during consumption. This condition makes marketing strategies, service quality, and innovation critical elements in shaping market advantage and maintaining business performance. One rapidly growing service sector is experience-based culinary services, particularly coffee cafés, which function not only as places for beverage consumption but also as social spaces, recreational venues, and symbols of lifestyle. The coffee café industry in the Greater Malang area has grown rapidly alongside the increasing trend of coffee-drinking culture and the demand for modern culinary experiences. Competition among business actors has intensified, as reflected in the emergence of diverse café concepts. In Malang City, cafés have begun adopting family-friendly concepts with children's play areas; in Batu City, cafés emphasize open-air nature tourism concepts integrated with mountainous landscapes; while in Malang Regency, cafés such as NK Coffee have gone viral by offering rural atmospheres and unique open spaces. This phenomenon indicates that café operators attempt to create market advantage through differentiation in marketing strategies, service delivery, and business innovation, although not all have succeeded in maintaining stable business performance.

This competitive phenomenon is supported by statistical data showing that the number of culinary MSMEs in Malang City increased from 6,378 units in 2021 to 7,203 units in 2022, then surged sharply to 16,417 units in 2023 (BPS, 2023a). Meanwhile, Malang Regency produced 14,264 tons of coffee from 20,676 hectares of land in 2023 (BPS, 2023b), highlighting the strong potential of the Greater Malang area as a national center for coffee production and consumption. Nevertheless, the increase in the number of cafés has not always been accompanied by stable business performance among coffee café MSMEs.

Various challenges are still faced by coffee café MSME operators in the Greater Malang area, including intensified competition, revenue fluctuations, difficulties in maintaining customer loyalty, and continuous demands for menu innovation and service concepts that follow rapidly changing consumer trends. Preliminary findings from exploratory interviews with nine coffee café owners in the Greater Malang area—namely Vosco Coffee, Tjakap Kopi, Roketto Coffee, Brick Café, Kopi Kulo, Kopi Kelana, Kopi Raja, Kopi Sontoloyo, and Kopi Baturono—indicate that most business actors experience revenue fluctuations ranging from 10 to 30 percent. These fluctuations are influenced by the emergence of competitors with similar concepts, dependence on seasons and weather conditions, high operational costs, and rapidly changing consumer preferences. This condition further demonstrates that growth in the number of cafés does not necessarily align with stable business performance.

These empirical conditions are consistent with previous studies indicating that cafés in Malang are still seeking the most effective strategies to enhance competitiveness and sustain business performance (Chrisyana et al., 2023;

Gacelzah, 2020; Widodo, 2022). Business performance reflects an organization's success in achieving its strategic objectives through effective and efficient resource utilization, assessed not only by financial indicators such as profit and revenue growth but also by non-financial aspects such as customer satisfaction, market share growth, and the sustainability of customer relationships (Kaplan & Norton, 1996). In the MSME context, business performance is strongly influenced by the ability to adapt to market changes and implement relevant marketing strategies, given MSMEs' limitations in capital, infrastructure, and technology compared to large firms (Tambunan, 2019).

From a strategic management perspective, market advantage or competitive advantage is a central concept that explains a firm's ability to create superior value compared to competitors, thereby sustaining superior performance over the long term (Day & Wensley, 1988; Porter, 1985). Numerous international and national studies have shown that competitive advantage plays an important mediating role in the relationship between marketing mix, service quality, business innovation, and business performance (Anwar, 2018; Bongso et al., 2024; Hadiyati et al., 2024; Mady et al., 2022; Muhammad & Chelliah, 2023; Prabowo, 2024; Susanti et al., 2023). However, empirical findings regarding the effects of the marketing mix, service quality, and innovation on business performance and market advantage remain mixed and inconsistent (Fitriany et al., 2024; Ge & Ding, 2014; Jatmiko, 2022; Setiawan & Damayanti, 2023; Yaskun et al., 2023).

Based on empirical conditions, theoretical perspectives, and inconsistencies in prior research findings, a research gap exists, particularly concerning the role of competitive advantage as a mediating variable in the context of coffee café MSMEs. Therefore, this study aims to integratively analyze the effects of the service marketing mix (7P), service quality, and business innovation on business performance, with competitive advantage serving as a mediating variable among coffee café MSMEs in the Greater Malang area.

## LITERATURE REVIEW
### Business Performance (BP)

Business performance represents an organization's success in achieving its strategic objectives through the effective and efficient utilization of resources. It is assessed not only through financial indicators such as profit and revenue growth but also through non-financial aspects, including customer satisfaction, increased market share, and the sustainability of customer relationships (Kaplan & Norton, 1996). In the context of micro, small, and medium enterprises (MSMEs), business performance is strongly influenced by the ability to adapt to changes in consumer preferences, market competition, and the implementation of relevant marketing strategies, as MSMEs face limitations in capital, infrastructure, and technology compared to large firms (Tambunan, 2019). Therefore, improving MSME performance, including in the coffee café sector, requires the implementation of strategies that strengthen competitiveness and foster customer retention amid increasingly intense competition.

Business performance reflects the level of success of MSMEs in achieving business objectives, both financially and non-financially. Referring to Hadiyati (2023) and Hadiyati et al. (2024), business performance of coffee café MSMEs can be assessed through growth, profitability, customer expansion, loyalty, and business sustainability. In highly competitive environments, performance is strongly influenced by the firm's ability to build sustainable competitive advantage through effective marketing strategies, service quality, and innovation.

Business Performance Indicators:
1. Increase in number of employees
2. Growth in sales
3. Growth in revenue
4. Increase in repeat purchases
5. Increase in profit
6. Growth in number of customers
7. Increase in business investment

### Market Advantage (MA)

Market advantage or competitive advantage is a central concept in strategic theory that explains a firm's ability to create higher value than its competitors, thereby enabling it to sustain superior performance in the long term. Porter (1985) argues that competitive advantage arises when a firm is able to implement strategies that are difficult for competitors to imitate, either through differentiation or cost efficiency. Day & Wensley (1988) further add that market advantage is reflected in a firm's superior position in the market, which is built through internal capabilities and customer-perceived value. In the context of MSMEs, market advantage serves as a strategic mechanism that mediates the influence of various marketing factors, service quality, and innovation on business performance, since MSMEs do not always experience performance impacts directly without first establishing a strong market position.

Competitive advantage reflects a firm's superior position relative to competitors, as evidenced by its ability to deliver higher value to customers. Based on Porter (1985) and Day and Wensley (1988), competitive advantage can be built through differentiation, cost efficiency, superior quality, and perceived customer value. In the context of MSME coffee cafés, competitive advantage acts as a mediating mechanism linking marketing mix, service quality, and business innovation to business performance (Narver & Slater, 1990; Zeithaml, 1988).

Competitive Advantage Indicators:
1. Growth of market share
2. Customer retention and acquisition
3. Perceived superior value
4. Product and service differentiation

Competitive advantage or market advantage has been widely proven as a mediator in improving firm performance. Competitive advantage mediates the relationship between innovation and performance (Anwar, 2018; Muhammad & Chelliah, 2023; Susanti et al., 2023). Mady et al. (2022) found that eco-innovation enhances sustainable competitive advantage. In the context of Indonesian

MSMEs, Prabowo (2024), Hadiyati (2023), and Hadiyati et al. (2024) emphasized that market orientation, digital marketing, and service quality build competitiveness that contributes to sales growth. International studies (Bongso et al., 2024; Protcko & Dornberger, 2014) also show that competitive advantage improves marketing performance. Conversely, several studies report inconsistent results (Ge & Ding, 2014; Jatmiko, 2022; Orbaningsih et al., 2018), indicating that the formation of market advantage is influenced by multiple factors and remains unstable.

- H7: Market advantage mediates the influence of the marketing mix (7P) on business performance.
- H8: Market advantage mediates the influence of service quality on business performance.
- H9: Market advantage mediates the influence of business innovation on business performance.

*Marketing Mix (7P)*

From the perspective of marketing theory, the marketing mix serves as a key strategy used by businesses to influence consumer behavior. Kotler & Armstrong (2018) define the marketing mix as a set of controllable tactical marketing tools employed by a company to generate the desired response in the target market. The concept was introduced by McCarthy (1964) through the 4P framework, consisting of product, price, place, and promotion. As the service sector expanded, Booms & Bitner (1981) extended the concept to 7P by adding people, process, and physical evidence. This extension reflects the complexity of services in shaping customer experiences. According to Kotler & Keller (2016), services possess characteristics such as intangibility, variability, and inseparability, making the application of the 7P framework essential for creating customer value and loyalty in the café and coffee industry.

Product reflects the core value received by consumers. In coffee cafés, this value is not limited to beverages alone but also includes taste quality, consistency of presentation, menu variety, product innovation, the use of high-quality or certified ingredients, and aesthetic presentation. Superior and consistent products shape perceived value and serve as the basis for market differentiation (Ardiansyahmiraja & Rahayu, 2023; Febriyanti et al., 2022; Jonathan & Riawan, 2025; Kaylasalma & Simamora, 2024; Margaretha et al., 2025).

Product Indicators:
1. Taste quality and consistency of presentation
2. Menu variety
3. Product innovation
4. Use of local/certified raw materials
5. Product design and aesthetic presentation

Price functions as a value signal for consumers. Price–quality congruence, affordability, price transparency, and pricing strategies such as discounts or bundling influence perceptions of price fairness and purchasing decisions, ultimately affecting café competitiveness (Artuğer et al., 2024; Kusumaningrum et al., 2023; Mabeza, 2024).

Price Indicators:

1. Price–quality suitability
2. Price affordability
3. Price transparency
4. Pricing strategies (discounts/bundling)

Place reflects customer convenience and accessibility. Strategic location, business visibility, ease of access, and the availability of additional distribution channels such as takeaway, delivery, and online platforms expand market reach and increase repeat visit potential (Gao et al., 2025; Harahap & Absah, 2020; Kim & Ju, 2022; Zhao et al., 2023).

Place Indicators:
1. Strategic business location
2. Visibility and traffic flow
3. Accessibility and customer convenience
4. Additional distribution channels (takeaway/delivery/online)

Promotion serves as a means of communicating value and brand image. The use of social media, digital influencers, experiential marketing programs, sustainability messages, and the ability of promotions to drive actual consumer actions are crucial in building awareness and customer preference (Bushara et al., 2023; Hasibuan et al., 2024; Ingrassia et al., 2022; Mahardika et al., 2025; Park & Namkung, 2022).

Promotion Indicators:
1. Effectiveness of social media marketing
2. Influencer/digital endorsement
3. Experiential marketing programs
4. Sustainability or green marketing messages
5. Conversion of promotion into consumer actio

People are a critical element in service marketing because service quality is largely determined by interactions between employees and customers. Training, work motivation, interpersonal skills, service attitude, and staff performance directly shape perceptions of service quality and customer experience (Fazri & Fitria, 2024; Hidayat et al., 2020; Nugraha et al., 2025; Retnadella et al., 2025; Soetanto et al., 2025; Syakira et al., 2025).

People Indicators:
1. Employee training
2. Work motivation
3. Interpersonal skills and service attitude
4. Employee performance
5. Staff service quality

Process describes how services are delivered to customers, including service speed and accuracy, implementation of standard operating procedures (SOPs), utilization of service technologies, and complaint handling. Efficient and consistent service processes enhance customer satisfaction and support operational excellence (Mariani & Borghi, 2022; Nurfitriana & Wijayanti, 2023; Wahyudi et al., 2024).

Process Indicators:
1. Service speed and accuracy

2. Implementation of SOPs
3. Service technology (POS systems, applications, digital payments)
4. Complaint handling

Physical evidence serves as a tangible cue for the quality of inherently intangible services. Interior design, cleanliness, supporting facilities, sensory elements, and visual brand attributes strengthen café image and influence perceived customer value (Han et al., 2022; Santoso & Nugraha, 2023; Wijayanti et al., 2024).

Physical Evidence Indicators:
1. Interior design and layout
2. Cleanliness and tidiness
3. Supporting facilities
4. Sensory elements (aroma, music, temperature)
5. Visual symbols and brand attributes

National studies show mixed results regarding the influence of the 7P. Ardhitama & Asakdiyah (2025) found that the 7P significantly affects purchasing decisions, whereas Fitriany et al. (2024) reported that only green place and green process were significant. Rahmadhanti et al. (2023) identified price as the dominant factor, while promotion and product were not significant. Internationally, Badi (2018) demonstrated that the marketing mix has a significant effect on competitive advantage among SMEs in Al-Buraimi. However, other studies suggest that the marketing mix does not always directly improve business performance and may operate through mediating variables such as market advantage.

- H1: The marketing mix (7P) influences market advantage
- H4: The marketing mix (7P) influences business performance.

### Service Quality (SQ)

Service quality is a fundamental concept in services marketing that describes the level of service excellence based on the comparison between customer expectations and perceptions (Parasuraman et al., 1988). In service industries, service quality is strategic in nature because it is intangible, highly influenced by human interactions, and determines the overall customer experience. In the café coffee industry, service quality is reflected not only in the beverage products offered, but also in the atmosphere, speed of service, employee interactions, and the comfort of facilities, which together shape perceptions of value, customer satisfaction, and loyalty. Therefore, service quality has the potential to be a critical factor in building market advantage and improving the business performance of café coffee MSMEs amid increasingly intense competition.

Service quality refers to customers' perceptions of the level of service excellence received relative to their expectations. Based on the SERVQUAL model, service quality is measured through five dimensions: tangibles, reliability, responsiveness, assurance, and empathy (Parasuraman et al., 1988). In the coffee café industry, service quality is a strategic factor because customer experience is strongly influenced by physical evidence, service consistency, responsiveness,

employee competence, and personalized attention. Superior service quality enhances satisfaction, loyalty, and competitive advantage (Hadiyati, 2023).

Service Quality Indicators:

1. Tangibles
2. Reliability
3. Responsiveness
4. Assurance
5. Empathy

Besides marketing aspects, service quality is a crucial factor in the café industry. Local studies indicate that service quality enhances customer satisfaction, loyalty, and perceived value (Chrisyana et al., 2023; Gacelzah, 2020; Soren et al., 2023). However, some studies show inconsistent results. Setiawan & Damayanti (2023) as well as Sitinjak et al. (2023) found that service quality does not significantly influence purchasing decisions. Sadikin et al. (2024) reported that the reliability dimension was not significant, while other dimensions were significant.

International studies support the important role of service quality. Ahmad & Jais (2024) found that service expectations and perceptions significantly affect competitive advantage. Ali et al. (2023) found that service perception is positively associated with firm performance. Wijetunge (2016) also stated that service quality determines competitive advantage and performance in service-sector SMEs.

- H2: Service quality influences market advantage.
- H5: Service quality influences business performance.

### Business Innovation (BI)

Business innovation is a fundamental concept in management and entrepreneurship that relates to an organization's ability to create and implement new ideas, products, processes, or methods that generate value for both customers and the organization. Drucker (1985) emphasizes that innovation is the primary means by which firms exploit change as a business opportunity, while the OECD (2018), through the Oslo Manual, defines innovation as the implementation of new or significantly improved products, processes, marketing methods, and organizational practices. In the context of dynamic competition, innovation serves as a strategic mechanism to enhance competitiveness, build differentiation, and sustain business performance, particularly for MSMEs that face resource constraints and high market pressure.

Business innovation reflects a firm's ability to create and implement value-adding changes in response to market dynamics. Referring to OECD (2018), business innovation consists of product innovation, process innovation, marketing innovation, and organizational innovation. In MSME coffee cafés, innovation extends beyond new menu development to include service methods, digital marketing strategies, and adaptive organizational management. Innovation plays a crucial role in creating differentiation, improving efficiency, and strengthening competitiveness.

Business Innovation Indicators:

1. Product innovation

2. Process innovation
3. Marketing innovation
4. Organizational innovation

Business innovation is a key factor in enabling MSMEs to adapt to market changes and competition. International studies show that innovation improves SME performance and competitive advantage (Anwar, 2018; Herman et al., 2018; Mady et al., 2022; Tirtayasa et al., 2022; Widyanti & Mahfudz, 2020). However, several studies have found that innovation does not significantly affect firm performance (Latifi et al., 2021; Yaskun et al., 2023). Falahat et al. (2018) even reported that innovation has no effect on the financial performance of retail and wholesale MSMEs. These varied findings indicate an empirical gap regarding the relationship between innovation and MSME performance, particularly in the café and coffee sector, which relies heavily on menu updates, concept innovation, and customer experience enhancement.

- H3: Business innovation influences market advantage.
- H6: Business innovation influences business performance.

*Conceptual Framework*

The conceptual framework of this study illustrates the relationship between the 7P service marketing mix, service quality, and business innovation on the business performance of coffee café MSMEs in Greater Malang, with market advantage serving as the mediating variable. An effective marketing mix, excellent service quality, and the ability of business actors to carry out business innovation are believed to create greater value for consumers, shape perceptions of superiority compared to competitors, and strengthen the business position in the market.

Market advantage formed through product and service differentiation, higher perceived value, and the ability to retain customers subsequently plays a role in driving improvements in business performance, both financially — such as revenue growth and profitability — and non-financially, including customer loyalty and increased market share. Thus, the influence of the 7P service marketing mix, service quality, and business innovation on business performance is not only direct but also indirect through market advantage as a connecting mechanism in facing increasingly intense competition in the coffee café industry.
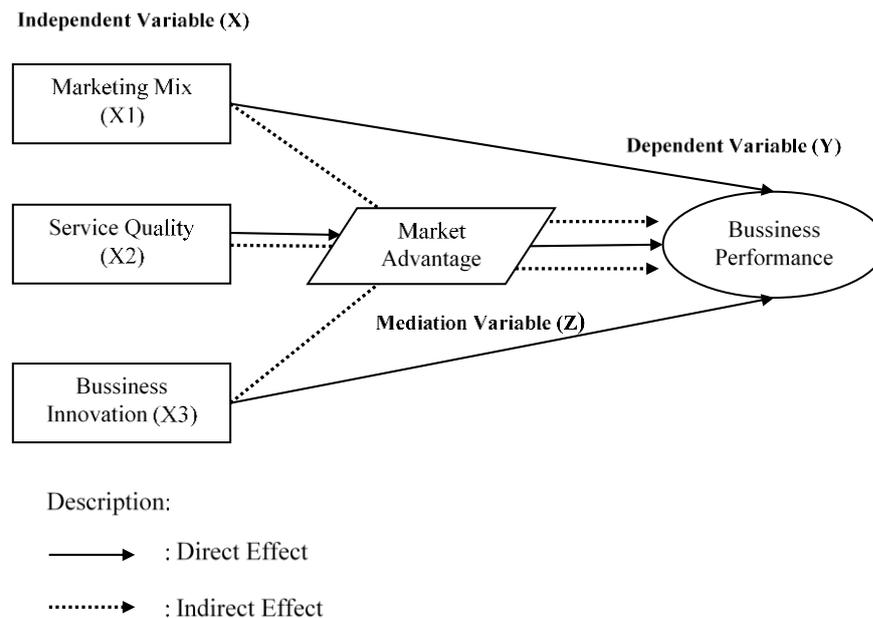
Picture 1. Conceptual Framework

## METHODOLOGY

This study employs a quantitative explanatory research approach using Structural Equation Modeling (SEM) as the analytical method. The unit of analysis is the owners of café coffee businesses in Greater Malang. The research population consists of 422 cafés located in Malang City (235), Malang Regency (113), and Batu City (74). The sampling technique used is proportional random sampling, resulting in a sample size of 205 cafés, comprising 114 cafés in Malang City, 55 cafés in Malang Regency, and 36 cafés in Batu City, in accordance with the population proportion of each area. Data were collected through a Likert-scale questionnaire (1–5) distributed to the owners both directly and online.

Table 1. Proportional Distribution of Café Samples in Greater Malang

| Region | Number of Cafés ($N_i$) | Proportion ($N_i/N×100\%$) | Sample Café ($n_i$) |
|---|---|---|---|
| Malang City | 235 | 55,7% | 114 |
| Malang Regency | 113 | 26,8% | 55 |
| Batu City | 74 | 17,5% | 36 |
| **Total** | **422** | **100%** | **205** |

Source: Processed by the Researcher, 2026

The data were analyzed using SEM-PLS with SmartPLS Version 4 through three stages of the testing process: the outer model test, the inner model test, and hypothesis testing. The operationalization of the variables used for measurement was adapted from various previous studies. The operational definitions can be seen in Table 2 below.

Table 2. Operational Definition

| No | Variable | Operational Definition | Indicators | Reference |
|---|---|---|---|---|
| 1 | **Marketing Mix (X1): Product** | Any form of offerings in the form of coffee beverages and supporting menu items provided by the café to consumers. | 1) Quality of taste and consistency of preparation<br>2) Menu variety<br>3) Product innovation<br>4) Use of local/certified raw materials<br>5) Design/aesthetic presentation of products | (Ardiansyahmiraja & Rahayu, 2023; Febriyanti et al., 2022; Jonathan & Riawan, 2025; Kaylasalma & Simamora, 2024; Margaretha et al., 2025) |
| | **Price** | The amount of money that consumers must pay to obtain products at the café. | 1) Price suitability with quality<br>2) Price affordability<br>3) Price transparency<br>4) Pricing strategies/discounts/bundling | (Artuğer et al., 2024; Kusumaningrum et al., 2023; Mabeza, 2024) |
| | **Place** | The business location and the distribution channels used by the café to deliver its products. | 1) Strategic location<br>2) Visibility and traffic flow<br>3) Accessibility and comfort<br>4) Additional distribution channels (takeaway/delivery/online) | (Gao et al., 2025; Harahap & Absah, 2020; Kim & Ju, 2022; Zhao et al., 2023) |
| | **Promotion** | The communication efforts carried out by the café to introduce and persuade consumers. | 1) Effectiveness of social media<br>2) Influencers/digital endorsements<br>3) Experiential marketing programs<br>4) Sustainability/green marketing messages<br>5) Conversion of promotions into consumer actions | (Bushara et al., 2023; Hasibuan et al., 2024; Ingrassia et al., 2022; Mahardika et al., 2025; Park & Namkung, 2022) |
| | **People** | All parties involved in | 1) Employee training<br>2) Work motivation | (Fazri & Fitria, 2024; Hidayat |

| No | Variable | Operational Definition | Indicators | Reference |
|---|---|---|---|---|
| | | serving customers at the café | 3) Interpersonal skills & service attitude<br>4) Employee performance<br>5) Staff service quality | et al., 2020; Nugraha et al., 2025; Retnadella et al., 2025; Soetanto et al., 2025; Syakira et al., 2025) |
| | **Process** | The mechanisms of service delivery and product preparation in the café | 1) Speed and accuracy of service<br>2) Implementation of SOPs<br>3) Service technology (POS, apps, digital payments)<br>4) Complaint handling | (Mariani & Borghi, 2022; Nurfitriana & Wijayanti, 2023; Wahyudi et al., 2024) |
| | **Physical Evidence** | The café's physical environment that can be perceived by consumers. | 1) Interior design and layout<br>2) Cleanliness and neatness<br>3) Supporting facilities<br>4) Sensory elements (aroma, music, temperature)<br>5) Visual symbols and brand attributes | (Han et al., 2022; Santoso & Nugraha, 2023; Wijayanti et al., 2024) |
| 2 | **Service Quality (X2)** | Consumers' perception of the extent to which the services provided by the café meet or exceed customer expectations. | 1) Tangibles<br>2) Reliability<br>3) Responsiveness<br>4) Assurance<br>5) Empathy | (Hadiyati, 2023; Parasuraman et al., 1988) |
| 3 | **Business Innovation (X3)** | The café's efforts to update and improve products, services, technology use, | 1) Development of new menus/products<br>2) Improvement of product quality<br>3) Utilization of service technology<br>4) Implementation of new marketing strategies | (OECD, 2018) |

| No | Variable | Operational Definition | Indicators | Reference |
|---|---|---|---|---|
| | | marketing strategies, and employee competencies. | 5) Enhancement of employee competencies and business management | |
| 4 | **Market Advantage (Z)** | The café's ability to excel in market share, customer retention, superior value perception, and product differentiation. | 1) Growth of market share<br>2) Customer retention and acquisition<br>3) Perceived superior value<br>4) Product and service differentiation | (Day & Wensley, 1988; Narver & Slater, 1990; Porter, 1985; Zeithaml, 1988) |
| 5 | **Business Performance (Y)** | The level of success achieved by the café in meeting its business objectives in financial, non-financial, and operational aspects. | 1) Increase in number of employees<br>2) Growth in sales<br>3) Growth in revenue<br>4) Increase in repeat purchases<br>5) Increase in profit<br>6) Growth in number of customers<br>7) Increase in business investment | (Hadiyati, 2023; Hadiyati et al., 2024) |

## RESULTS

Based on Table 3 Respondent Demographics, the majority of the 205 café owners surveyed were male (59%) and within the age range of 25–34 years (48%), with most holding a bachelor's degree (51%). Most cafés were managed by sole owners (67%) and had been operating for 1–3 years (50%), indicating that many businesses were still in the development stage. The business scale tended to be small to medium, as reflected by the number of employees, with 55% employing 1–5 workers. Geographically, the cafés were distributed proportionally across regions, with the highest concentration in Malang City (56%), followed by Malang Regency (27%) and Batu City (17%).

Table 3. Respondent Demographics

| Variable | Unit | % |
|---|---|---|
| Gender | | |
| **Male** | 121 | 59% |
| **Female** | 84 | 41% |
| Age | | |
| **<25 years** | 32 | 16% |
| **25–34 years** | 98 | 48% |
| **35–44 years** | 54 | 26% |
| **>44 years** | 21 | 10% |
| Education Level | | |
| **High School** | 41 | 20% |
| **Diploma** | 37 | 18% |
| **Bachelor** | 105 | 51% |
| **Postgraduate** | 22 | 11% |
| Ownership Structure | | |
| **Single Owner** | 138 | 67% |
| **Partnership** | 67 | 33% |
| Length of Business Operation | | |
| **<1 year** | 18 | 9% |
| **1–3 years** | 102 | 50% |
| **4–6 years** | 56 | 27% |
| **>6 years** | 29 | 14% |
| Number of Employees | | |
| **1–5** | 112 | 55% |
| **6–10** | 57 | 28% |
| **11–20** | 26 | 13% |
| **>20** | 10 | 5% |
| Café Location Area | | |
| **Malang City** | 114 | 56% |
| **Malang Regency** | 55 | 27% |
| **Batu City** | 36 | 17% |

Table 4 shows the result of the convergent validity test with loading factor parameters. The re¬sult demonstrates that all indicators of the latent variable are > 0.7, which shows a strong relation between the measurement variable and its factor, making the test valid (Hair et al., 2021).

Table 4. Loading Factor

| | BI | BP | MA | PPL | PEV | PLC | PRC | PCS | PDCT | PRM | SQ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **PDCT1** | | | | | | | | | 0,926 | | |
| **PDCT2** | | | | | | | | | 0,881 | | |
| **PDCT3** | | | | | | | | | 0,919 | | |

| | BI | BP | MA | PPL | PEV | PLC | PRC | PCS | PDCT | PRM | SQ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| PDCT4 | | | | | | | | | 0,904 | | |
| PDCT5 | | | | | | | | | 0,921 | | |
| PRC1 | | | | | | | 0,888 | | | | |
| PRC2 | | | | | | | 0,917 | | | | |
| PRC3 | | | | | | | 0,896 | | | | |
| PRC4 | | | | | | | 0,925 | | | | |
| PLC1 | | | | | | 0,899 | | | | | |
| PLC2 | | | | | | 0,896 | | | | | |
| PLC3 | | | | | | 0,918 | | | | | |
| PLC4 | | | | | | 0,908 | | | | | |
| PRM1 | | | | | | | | | | 0,921 | |
| PRM2 | | | | | | | | | | 0,889 | |
| PRM3 | | | | | | | | | | 0,886 | |
| PRM4 | | | | | | | | | | 0,917 | |
| PRM5 | | | | | | | | | | 0,922 | |
| PPL1 | | | | 0,890 | | | | | | | |
| PPL2 | | | | 0,903 | | | | | | | |
| PPL3 | | | | 0,890 | | | | | | | |
| PPL4 | | | | 0,903 | | | | | | | |
| PPL5 | | | | 0,914 | | | | | | | |
| PCS1 | | | | | | | | 0,916 | | | |
| PCS2 | | | | | | | | 0,895 | | | |

| | BI | BP | MA | PPL | PEV | PLC | PRC | PCS | PDCT | PRM | SQ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| PCS3 | | | | | | | | 0,889 | | | |
| PCS4 | | | | | | | | 0,924 | | | |
| PEV1 | | | | | 0,893 | | | | | | |
| PEV2 | | | | | 0,892 | | | | | | |
| PEV3 | | | | | 0,880 | | | | | | |
| PEV4 | | | | | 0,925 | | | | | | |
| PEV5 | | | | | 0,898 | | | | | | |
| SQ1 | | | | | | | | | | 0,900 | |
| SQ2 | | | | | | | | | | 0,892 | |
| SQ3 | | | | | | | | | | 0,874 | |
| SQ4 | | | | | | | | | | 0,894 | |
| SQ5 | | | | | | | | | | 0,906 | |
| BI1 | 0,910 | | | | | | | | | | |
| BI2 | 0,885 | | | | | | | | | | |
| BI3 | 0,890 | | | | | | | | | | |
| BI4 | 0,864 | | | | | | | | | | |
| BI5 | 0,909 | | | | | | | | | | |
| BP1 | | 0,760 | | | | | | | | | |
| BP2 | | 0,761 | | | | | | | | | |
| BP3 | | 0,746 | | | | | | | | | |
| BP4 | | 0,722 | | | | | | | | | |
| BP5 | | 0,773 | | | | | | | | | |
| BP6 | | 0,707 | | | | | | | | | |

| | BI | BP | MA | PPL | PEV | PLC | PRC | PCS | PDCT | PRM | SQ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| BP7 | | 0,776 | | | | | | | | | |
| MA1 | | | 0,799 | | | | | | | | |
| MA2 | | | 0,820 | | | | | | | | |
| MA3 | | | 0,814 | | | | | | | | |
| MA4 | | | 0,816 | | | | | | | | |

Source: Processed by the Researcher, 2026

Based on Table 5, all constructs meet the reliability and validity criteria suggested by Hair et al. (2021), as indicated by Cronbach's Alpha and Composite Reliability values above 0.70 and AVE values exceeding 0.50. Thus, all variables are considered reliable and demonstrate good convergent validity.

Table 5. Construct Reliability and Validity

| | Cronbach's Alpha | rho_A | Composite Reliability | Average Variance Extracted (AVE) |
|---|---|---|---|---|
| BI | 0,936 | 0,947 | 0,951 | 0,795 |
| BP | 0,870 | 0,871 | 0,900 | 0,562 |
| MA | 0,828 | 0,829 | 0,886 | 0,660 |
| PPL | 0,941 | 0,947 | 0,955 | 0,810 |
| PEV | 0,941 | 0,996 | 0,954 | 0,806 |
| PLC | 0,927 | 0,931 | 0,948 | 0,819 |
| PRC | 0,928 | 0,946 | 0,949 | 0,822 |
| PCS | 0,928 | 0,966 | 0,948 | 0,821 |
| PDCT | 0,950 | 0,997 | 0,960 | 0,828 |
| PMR | 0,947 | 0,981 | 0,959 | 0,823 |
| SQ | 0,938 | 0,969 | 0,952 | 0,798 |

Source: Processed by the Researcher, 2026

Based on the HTMT results in Table 6, all inter-construct values fall below the recommended threshold of 0.90 by Hair et al. (2021). This indicates that all variables meet the criteria for discriminant validity and that no excessively high correlations exist among the constructs. Therefore, the model passes the HTMT assessment.

Table 6. Discriminant Validity (HTMT)

| | BI | BP | MA | PPL | PEV | PLC | PRC | PCS | PDCT | PMR | SQ |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **BI** | | | | | | | | | | | |
| **BP** | 0,218 | | | | | | | | | | |
| **MA** | 0,139 | 0,745 | | | | | | | | | |
| **PPL** | 0,067 | 0,222 | 0,204 | | | | | | | | |
| **PEV** | 0,110 | 0,179 | 0,142 | 0,034 | | | | | | | |
| **PLC** | 0,056 | 0,266 | 0,202 | 0,049 | 0,148 | | | | | | |
| **PRC** | 0,109 | 0,127 | 0,126 | 0,077 | 0,036 | 0,034 | | | | | |
| **PCS** | 0,053 | 0,151 | 0,163 | 0,093 | 0,041 | 0,074 | 0,040 | | | | |
| **PDCT** | 0,186 | 0,175 | 0,114 | 0,046 | 0,042 | 0,042 | 0,040 | 0,046 | | | |
| **PMR** | 0,046 | 0,185 | 0,076 | 0,119 | 0,081 | 0,063 | 0,076 | 0,053 | 0,038 | | |
| **SQ** | 0,058 | 0,174 | 0,167 | 0,050 | 0,040 | 0,040 | 0,105 | 0,063 | 0,042 | 0,119 | |

Source: Processed by the Researcher, 2026

Based on Table 7, all VIF values are well below the maximum threshold of 5 recommended by Hair et al. (2021). This indicates that no multicollinearity exists among the constructs in the structural model, and therefore all variables pass the VIF assessment.

Table 7. Inner VIF

| | BP | MA |
|---|---|---|
| **BI** | 1,081 | 1,060 |
| **MA** | 1,205 | |
| **PPL** | 1,076 | 1,029 |
| **PEV** | 1,048 | 1,038 |
| **PLC** | 1,067 | 1,030 |

| | | |
|---|---|---|
| **PRC** | 1,045 | 1,032 |
| **PCS** | 1,045 | 1,012 |
| **PDCT** | 1,052 | 1,031 |
| **PMR** | 1,037 | 1,035 |
| **SQ** | 1,052 | 1,024 |

Source: Processed by the Researcher, 2026

Based on Table 8, the SRMR value is below the maximum threshold of 0.10, in accordance with the commonly accepted rule of thumb, indicating that the model demonstrates a good overall fit. This suggests that the discrepancy between the observed data and the model-implied correlations is minimal, and therefore the structural model is considered acceptable and well-specified (Hair et al., 2021).

Table 8. Model Fit

| | Saturated Model | Estimated Model |
|---|---|---|
| **SRMR** | 0,045 | 0,045 |
| **d_ULS** | 2,959 | 2,959 |
| **d_G** | 1,581 | 1,581 |
| **Chi-Square** | 1775,838 | 1775,838 |
| **NFI** | 0,820 | 0,820 |

Source: Processed by the Researcher, 2026
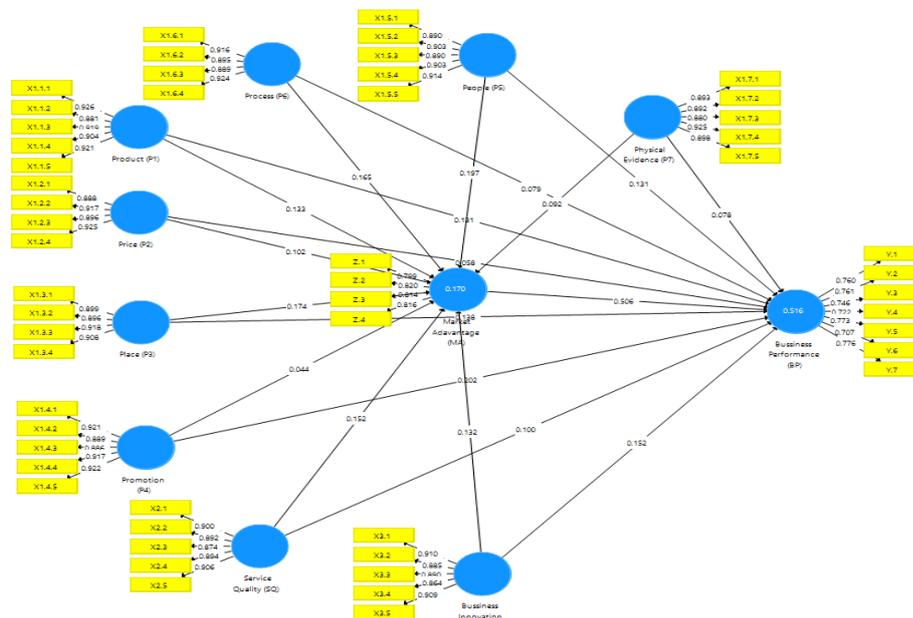


Figure 1 Path Model
Source: Processed by the Researcher, 2026

Based on Table 9, the R-square value for Business Performance (0.516) falls into the moderate category according to Yamin (2023), indicating that the predictor variables explain approximately 51.6% of its variance. Meanwhile, the R-square value for Market Advantage (0.170) is categorized as weak, meaning

that the constructs influencing it explain only 17% of its variance. Thus, the model demonstrates moderate explanatory power for Business Performance and weak explanatory power for Market Advantage, consistent with the criteria suggested by Yamin (2023).

Table 9. R-Square

|  | R Square | R Square Adjusted |
|---|---|---|
| **Bussiness Performance (BP)** | 0,516 | 0,491 |
| **Market Adavantage (MA)** | 0,170 | 0,132 |

Source: Processed by the Researcher, 2026

Based on Table 10, the marketing mix, service quality, and business innovation are shown to have significant direct effects on both market advantage and business performance, as indicated by p-values below 0.05 in accordance with the significance criteria recommended by Hair et al. (2021).

Table 10. Direct Effect

|  | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | P Values |
|---|---|---|---|---|
| BI -> BP | 0,152 | 0,154 | 0,052 | 0,003 |
| BI -> MA | 0,132 | 0,134 | 0,067 | 0,029 |
| MA -> BP | 0,506 | 0,503 | 0,044 | 0,000 |
| PPL -> BP | 0,131 | 0,132 | 0,049 | 0,007 |
| PPL -> MA | 0,197 | 0,200 | 0,062 | 0,002 |
| PEV -> BP | 0,078 | 0,083 | 0,054 | 0,006 |
| PEV -> MA | 0,092 | 0,104 | 0,062 | 0,006 |
| PLC -> BP | 0,138 | 0,140 | 0,045 | 0,003 |
| PLC -> MA | 0,174 | 0,173 | 0,063 | 0,006 |
| PRC -> BP | 0,058 | 0,060 | 0,051 | 0,008 |
| PRC -> MA | 0,102 | 0,113 | 0,068 | 0,002 |
| PCS -> BP | 0,079 | 0,083 | 0,054 | 0,006 |
| PCS -> MA | 0,165 | 0,172 | 0,065 | 0,012 |
| PDCT -> BP | 0,131 | 0,133 | 0,055 | 0,018 |

| | | | | |
|---|---|---|---|---|
| PDCT -> MA | 0,133 | 0,138 | 0,068 | 0,020 |
| PMR -> BP | 0,202 | 0,201 | 0,052 | 0,000 |
| PMR -> MA | 0,044 | 0,047 | 0,066 | 0,006 |
| SQ -> BP | 0,100 | 0,103 | 0,051 | 0,031 |
| SQ -> MA | 0,152 | 0,159 | 0,062 | 0,014 |

Source: Processed by the Researcher, 2026

Based on Table 11, the indirect effect values indicate that market advantage serves as a significant mediator for all independent variables. This is evidenced by p-values below 0.05, meaning that market advantage successfully mediates the effects of the marketing mix, service quality, and business innovation on business performance, in line with the mediation criteria recommended by Hair et al. (2021).

Table 11. Indirect Effect

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | P Values |
|---|---|---|---|---|
| BI -> MA -> BP | 0,067 | 0,067 | 0,034 | 0,037 |
| PPL -> MA -> BP | 0,100 | 0,101 | 0,033 | 0,003 |
| PEV -> MA -> BP | 0,047 | 0,052 | 0,032 | 0,004 |
| PLC -> MA -> BP | 0,088 | 0,087 | 0,033 | 0,007 |
| PRC -> MA -> BP | 0,052 | 0,057 | 0,035 | 0,008 |
| PCS -> MA -> BP | 0,084 | 0,086 | 0,034 | 0,014 |
| PDCT -> MA -> BP | 0,067 | 0,069 | 0,035 | 0,022 |
| PMR -> MA -> BP | 0,022 | 0,023 | 0,033 | 0,004 |
| SQ -> MA -> BP | 0,077 | 0,080 | 0,033 | 0,020 |

Source: Processed by the Researcher, 2026

The results of this study indicate that all variables marketing mix, service quality, and business innovation have a significant effect on both market advantage and business performance. This finding is supported by the significance test results in Table 10, which show p-values below 0.05 for all direct

relationships, meaning that all direct hypotheses (H1, H2, H3, H4, H5, H6) are accepted, in accordance with the recommendations of Hair et al. (2021). Furthermore, the mediation test results in Table 11 show that market advantage significantly mediates the effects of the three independent variables on business performance (H7, H8, H9 supported), indicating that market advantage serves as a key mechanism in improving the performance of cafés in Malang Raya.

In terms of model quality, all constructs meet the criteria for convergent validity, as all loading values exceed 0.70. Construct reliability, as reflected by Cronbach's Alpha and Composite Reliability, also meets the criteria suggested by Hair et al. (2021), with all values above 0.70. The AVE values for all constructs are above 0.50, indicating strong explanatory power for each variable. Discriminant validity is also confirmed by HTMT values below 0.85, demonstrating that each construct is distinct and non-overlapping. The VIF values are well below the maximum threshold of 5, confirming the absence of multicollinearity issues. Additionally, the R-square results reveal that the predictor variables explain 51.6% of the variance in business performance (moderate category according to Yamin, 2023) and 17% of the variance in market advantage (weak category), indicating that business performance is more strongly explained by the model compared to market advantage.

## DISCUSSION

These empirical findings reinforce the theoretical view that business performance is influenced by an organization's ability to utilize resources and implement effective marketing strategies (Kaplan & Norton, 1996; Tambunan, 2019). In the café and coffee shop context, the implementation of the marketing mix—ranging from product quality, pricing, location, promotion, employee service, service processes, to physical evidence—proves to be a key element in building market advantage. This is consistent with studies by Badi (2018) and Ardhitama & Asakdiyah (2025), which emphasize that the marketing mix enhances competitiveness and influences consumer decisions. The findings also confirm that the marketing mix influences business performance both directly and indirectly through market advantage, aligning with international studies showing that the 7Ps do not always directly impact performance but operate through strengthened market positioning.

Regarding service quality, the study finds a significant effect on both market advantage and business performance. This supports previous work indicating that service quality enhances loyalty, satisfaction, and perceived value (Ahmad & Jais, 2024; Ali et al., 2023; Wijetunge, 2016). Although some local studies reported inconsistent results (Setiawan & Damayanti, 2023; Sitinjak et al., 2023), the present findings reaffirm that in the café sector, service quality remains a strong differentiating factor for competition and customer retention.

The findings related to business innovation also reveal significant effects on market advantage and business performance. This aligns with the view that innovation enables MSMEs to adapt to changing consumer preferences and competitive dynamics (Anwar, 2018; Herman et al., 2018; Mady et al., 2022). These results address the empirical gap reflected in studies reporting non-

significant effects of innovation (Latifi et al., 2021; Yaskun et al., 2023). In the café industry, menu innovation, service technology, marketing strategies, and employee capability development are proven to enhance competitiveness and ultimately improve business performance.

Finally, the role of market advantage as a mediator is confirmed, indicating that the ability of a café to compete in the market determines the extent to which marketing strategies, service quality, and innovation translate into improved business performance. These findings align with prior studies by Anwar (2018), Muhammad & Chelliah (2023), and Prabowo (2024), which show that competitive advantage acts as a crucial bridge between internal strategies and performance outcomes. However, the relatively low R-square for market advantage suggests that it is influenced by other factors such as digital presence, brand equity, or unique differentiation strategies not examined in this study, offering opportunities for future research.

## CONCLUSIONS AND RECOMMENDATIONS

This study demonstrates that the marketing mix, service quality, and business innovation have a significant influence on both market advantage and business performance. Market advantage also serves as a significant mediator that strengthens the effects of these three variables on business performance. Overall, the findings confirm that effective marketing strategies, high service quality, and continuous innovation are essential factors in enhancing competitiveness and improving the performance of cafés in Malang Raya.

## FURTHER STUDY

This study has several limitations. First, the research is limited to MSME coffee cafés in Malang Raya, which may constrain the generalizability of the findings. Future studies may extend the scope to other regions or service sectors. Second, this study focuses on marketing mix, service quality, and business innovation, while other factors such as digital capability, entrepreneurial orientation, or customer experience were not examined and could be explored in future research. Third, the use of cross-sectional data limits the ability to capture dynamic changes over time; therefore, longitudinal or mixed-method approaches are recommended to provide deeper insights into the sustainability of competitive advantage and business performance.

## ACKNOWLEDGMENT

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