# SYNERGIES OF **SUCCESS**

Navigating Competitiveness through Strategy,
Knowledge Transfer and Consumer Behavior Insights



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# Chapter 7
# Innovation and Customer-Centric Analysis:
# Restaurant industry



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# Innovation and Customer-Centric Analysis: Restaurant industry

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## INTRODUCTION

When ordering from a restaurant, individuals prioritize different aspects of the experience based on their habits, budget, and personal preferences. The choice between chain and independent restaurants varies among consumers, influenced by atmosphere and convenience. The current study aims to explore these dynamics, recognizing the inherent nature of change.

Previous research has identified patterns related to consumer preferences. While some seek a convenient and standardized experience in local chain franchises, others emphasize taste as the distinguishing factor. However, empirical studies reveal a contradiction: customers evaluate more than just food and drinks during their entire stay.

The study emphasizes the crucial role of innovation, which permeates various aspects of the dining experience. Four primary dimensions are examined: food innovation, beverage innovation, service innovation, and environmental innovation. Customer service is a significant consideration for over two-thirds of consumers visiting chain and independent restaurants, particularly valued by those exclusive to independent establishments, including chain restaurants, millennials, and high-income earners. Despite chain restaurants embracing technology-driven efficiencies, there is also an emerging interest in the metaverse.

**Objective**

- Examining the innovation´s impact on full-service restaurant industry within Guadalajara´s metropolitan area (GMA)

**Specific objectives**

- Contextualizing the theoretical reality regarding innovation in the restaurant industry within GMA

- Detecting the key factors that intervene in the restaurant industry within GMA

# THEORETICAL FRAMEWORK

In the contemporary business landscape, innovation is widely acknowledged as crucial for a company's success. Its importance is paramount in achieving exceptional performance and ensuring a company's survival in the marketplace. Any novel development adopted by a given enterprise is regarded as an innovation.

This idea involves a range of actions, including crafting or reshaping products or services to meet market demands, integrating innovative methods to increase productivity, embracing fresh marketing approaches, and introducing inventive management systems to enhance operational efficiency. Innovation drives the improvement of processes and creation products in organizations (Buijtendijk et al., 2021). This strategic process makes it easier in some aspects, such as new business models, products, and marketing expressions, among other characteristics and related attributes (Cheah & Yuen-Ping, 2021).

Therefore, companies have adopted innovative development strategies to create fresh products, services, environments, and experiences. As a result, these strategies have facilitated incorporation creative technological solutions and novel business models. While internal innovation remains the primary approach for developing new products in most food companies, there is a growing trend among a limited but expanding group of food industries to utilize technological solutions from external sources in their product development process.

This purpose of the companies to increase the capacities for creating competitive advantages through goods and distinctive services raises the necessity to adopt innovation inside of the structures of the organizations (Cui et al., 2021; Sánchez & Londoño, 2018).

How innovation is applied in organizations can be different for each one; that is, how each company decides to develop it is particular; however, its internalization and materialization require the commitment and support of management. It usually starts with the identification of the organization's needs. Authors such as Ferreira et al. (2020) state that the identification and solution of these problems are related to the development of cognitive abilities to learn and unlearn through the adoption of innovative behavior that drives creativity and the improvement of goods and services in companies (Hameed et al., 2021). In this order, Lendel and Varmus (2016), Villalba and Builes (2016), and García et al. (2019) converge that, naturally, in organizations, there are internal processes in their functional areas susceptible to improvement, which means an opportunity to innovate and develop new methods and technologies with greater efficiency and organizational differentiation (Dost et al., 2020).

In the ever-evolving realm of the restaurant industry, ongoing changes persistently unfold, often without notice. Shifts in demographics drive these transformations and consumers' evolving tastes and are further influenced by global economic downturns. However, due to the subtle nature of these market shifts, many retail establishments fail to seize opportunities to gain or uphold their competitive edge. Companies that overlook these chances often witness a decline in their market share, accompanied by a decrease in loyal and occasional customers, sluggish turnover rates, reduced profits, and additional economic hurdles, all leading to a compromise in service quality.

When companies finally realize the gravity of their situation, they often find themselves unprepared to swiftly adapt to the market's demands without thorough research and substantial investments. Conversely, proactive, market-oriented companies can capitalize on adaptive strategies and timely business decisions. Furthermore, by identifying favorable trends within the market, companies can maintain their position through investments that are not significantly greater than those previously made. The fast-paced lives of modern consumers demand prompt responsiveness and personalized service tailored to their ever-changing needs.

To thoroughly explore the current research, it is vital to concentrate on the restaurant sector. Restaurants are hubs where people gather to eat and socialize, conduct business, and procure a one-of-a-kind experience. The key to offering a distinctive experience in this

industry lies in adaptability. This necessitates managers departing from traditional business models and embracing new management and supervision methods to establish rapport with each customer individually.

In the bustling landscape of Mexico's food sector, most retail workers find their employment nestled within the confines of traditional stores. However, beneath the surface lies a profound shift, where the relentless march of technology steadily encroaches upon the domain of human labor. From humble street kiosks to the opulent realms of fine dining, the echoes of mechanization reverberate, casting a shadow over the once vibrant tapestry of human interaction within the restaurant industry.

According to Kyriakidou (2015), innovations take shape as transformative solutions across four fundamental domains: Atmosphere, where the interplay of interior and exterior aesthetics, captivating color schemes, and immersive ambient melodies create unforgettable dining experiences; Food and beverages, a realm of culinary exploration encompassing portion sizes, inventive ingredients, and allergy-conscious alternatives; and Service, a frontier marked by technological breakthroughs such as Property Management Systems (PMS), Point of Sale (POS) terminals, seamless online reservations, mobile apps, and seamless social media integration. Furthermore, innovation and creativity are indispensable pillars for achieving victory in this fiercely competitive market. As the industry evolves, those who embrace forward-thinking ideas and daring innovations are poised to carve out their place in the ever-shifting landscape of culinary excellence.

In the labyrinth of innovation, myriad pathways unfurl, each promising its brand of transformation. Among these is the realm of gradual innovation, where the familiar is tweaked, and the known is reshaped, introducing novel technologies, products, or services that breathe new life into the existing order (Van Lancker et al., 2016). Then there are the technical innovators, the architects of change who sculpt the physical form of their creations, leaving an indelible mark on the world (Nirere, 2022). Their domain extends beyond mere aesthetics, delving into the essence of performance parameters and production processes, reshaping the fabric of reality itself (Fana & Villani, 2022).

However, the true alchemy of transformation occurs in the realm of managerial innovation. Here, the tides of change sweep through production methods and product delivery channels, carving new pathways and forging new destinies. Unlike their

counterparts, radical innovators stand at the precipice of possibility, daring to defy convention and rewrite the rules of engagement (Van Lancker et al., 2016). With audacious strokes, they unveil ground-breaking solutions that shatter the status quo, introducing materials and technologies hitherto unseen, forever altering the landscape of price and quality.

In this tempest of innovation, where boundaries blur and paradigms shift, lies the crucible of progress. It is here, amidst the chaos and the clamor, that the seeds of change take root, giving rise to a future defined not by what was but by what could be.

The underlying theory posited in this study suggests that restaurants in many developing nations face constraints in their technological advancement, subsequently hindering their growth (Comin & Mestieri, 2018). Embracing innovation involves a pivotal shift towards more contactless methods to remain competitive, allure new patrons, and establish a unique identity amidst rivals, thereby fostering avenues for expansion. Managing such transitions necessitates multifaceted approaches, with innovation management simultaneously demanding concerted efforts across various organizational levels (Van Lancker et al., 2016).

Moreover, effective innovation management entails tailored strategies that align with individual enterprises' distinct characteristics and objectives. In the context of radical technological transitions, management mandates bespoke approaches tailored to each enterprise's unique circumstances and aspirations. Successful implementation of such transitions hinges upon securing all requisite necessary resources before project commencement.

In contrast, restaurants in developed countries benefit from greater access to funding from both public and private institutions to support their technological endeavors (Cirera et al., 2022; Comin & Mestieri, 2018). Conversely, their counterparts in many developing nations need similar privileges, resulting in a lag in technology adoption rates (Ishak et al., 2021). Developed nations like Canada, Singapore, and the United Kingdom offer subsidies, vouchers, and grants to small and medium enterprises, including restaurants, to facilitate essential technology upgrades and digitalization initiatives. This support is underpinned by the belief that extensive digitalization of businesses yields positive externalities (Comin & Mestieri, 2018).

The findings from the macroeconomic literature indicate that despite the narrowing gap in technology adoption between developing and developed nations, there is an increasing discrepancy in the extent of technology utilization among them (Comin & Mestieri, 2018). While technology diffusion has accelerated in the restaurant industry, it remains uneven, leading to a widening technology gap across various types of restaurants (including corporate and independent) and countries.

The overall situation in developing nations, characterized by comparatively low living standards, underdeveloped industrial infrastructure, and a low Human Development Index reflecting factors like poverty, literacy, and education (United Nations, 2008), is widely acknowledged as a contributing factor to this disparity (Mun & Jang, 2018; Nkosana & Robertson, 2018; Skinner & Goodier, 2016). While existing research predominantly focuses on the benefits of technological innovation (Asefa et al., 2020; Kim et al., 2021; Kumaning & Godfred, 2019), little attention is given to understanding the challenges faced by high-risk enterprises such as restaurants in embracing radical technological changes.

For instance, Alawamleh et al. (2022) investigated several aspects of innovation in the Jordanian food industry. However, they still need to connect these hurdles and the socio-economic challenges at the national level. Similarly, Esposito et al. (2022) dived into the likely benefits of technological innovation but overlooked the factors that might hinder restaurants from adopting radical technological changes. Other studies highlight internal restaurant conditions as a primary barrier to technological transition and neglect to consider challenges related to accessing capital from public and private institutions to facilitate technological advancements (Kansakar et al., 2019; Korede et al., 2021; Nkosana et al., 2016). Consequently, existing studies must critically analyze the national and regional socio-economic statuses when addressing restaurants' obstacles in transitioning to radical technological shifts.

In contemporary times, restaurants have become adept at efficiently managing marketing strategies and service operations. They can gather and retain specific customer data, primarily sourced from comment cards or online surveys (Heavin & Power, 2018). Understanding patrons' preferences and consumption habits empowers restaurants to position their offerings better. Moreover, integrating intelligent technologies allows restaurants to enhance performance by optimizing service speed (Frey et al., 2019).

Research highlights the challenges many developing nations face, particularly in Africa, Latin America, and South Asia, in providing adequate resources for small businesses like independent restaurants (Ishak et al., 2021; Nkosana et al., 2016). A significant obstacle is the lack of financial support, with nearly 40% of new ventures—especially independent restaurants—failing within their first year, followed by an additional 60% in the second year, and 90% within the initial decade of operation (Bhorat et al., 2018). In these regions, businesses, including restaurants, predominantly rely on personal savings for startup capital and ongoing operations (Ramukumba, 2014).

Service innovation has garnered much interest from both industry experts and academic scholars as a means of cultivating novel services. It holds pivotal importance in meeting customers' evolving expectations for fresh experiences. Previous research has delved into integrating technological advancements within service operations to enhance customer satisfaction (Morrar, 2014; Stanko et al., 2014; Wunderlich et al., 2015; Kuo et al., 2017; Zhang & Hou, 2017). Additionally, studies have explored customer acceptance of technological and digital applications within service contexts (Kattara & El-Said, 2014; Durst et al., 2015; Rosenbaum & Wong, 2015).

Regarding the principles of Service-Dominant Logic, customers consume the product or service and evaluate the process of their interaction with the service provider (Lusch & Nambisan, 2015). From this standpoint, customers perceive innovation and assess the innovativeness of service operations, thereby serving as stakeholders in the creation of service innovation. Consequently, optimizing operational performance for mutual benefit between customers and service providers becomes imperative (Lusch & Nambisan, 2015). Furthermore, soliciting customer feedback regarding innovative cues is crucial for understanding customer perceptions and evaluations of the innovativeness of service operations (Ordanini et al., 2014; Rosenbaum & Wong, 2015).

Examining customer perceptions and attitudes toward the innovativeness of operations in the restaurant industry can aid owners and decision-makers in refining marketing strategies and enhancing operational efficiency. This section delves into the perspectives of the service innovation field to underscore the significance of innovative service cues in bolstering customer satisfaction. Research on service innovation has underscored the interdependence of operational performance and customer evaluation. In

essence, the success of innovation hinges not only on organizational and operational aspects but also on customer contribution through feedback. Additionally, there is a growing demand in the hospitality sector for service innovation that prioritizes delighting customers with new and unique experiences distinct from commercial standardization.

Scholars emphasize the necessity of an inclusive conception of service innovation that extends beyond technological innovations. They posit that such a definition should encompass manufacturing and pure-service operations (Snyder et al., 2016). This holistic perspective suggests that integrating these viewpoints may significantly and feasibly contribute to economic growth (Gallouj, 2002; Witell et al., 2016).

Tangible product attributes do not solely shape customer satisfaction; it is also heavily influenced by the intangible aspects of service delivery (Parasuraman et al., 1990). The way customers react when assessing and providing feedback on the quality of service in each specific interaction is called Transaction-Specific Satisfaction (Bitner & Hubbert, 1994; Jones & Suh, 2000). Before assessing services, customers harbor expectations regarding service performance, which are precursors to satisfaction (Zeithaml et al., 1990). These expectations, shaped by past experiences, knowledge, information, and demands, directly impact customers' perceptions. Perceptions of service performance entail comparing anticipated and actual values received (Oliver, 1977; Zeithaml et al., 1990). Hence, satisfaction levels can vary based on these expectations. Understanding how customers perceive and evaluate services is pivotal for fostering positive behavioral intentions such as repeat patronage and recommendations (Chua et al., 2014; Haddad et al., 2015; Ali et al., 2016; Ahmad et al., 2017). In an intensely competitive market, researchers have delved into the ramifications of service innovation to differentiate oneself from competitors. Such innovation must align closely with customer needs and desires to garner acceptance (Rogers, 2010).

## RESEARCH METHODOLOGY

The research is based on investigating customers at full-service casual dining restaurants. Following clear instructions on providing accurate responses, participants were personally

interviewed. Each customer was tasked with assigning points to rank the most crucial innovation areas (1 completely disagree, 5 = agree entirely) to reveal how they actually feel regarding each innovation´s dimension (brought up from the literature) and forecast dominant trends in the restaurant industry. Furthermore, they were asked to fulfill short control questions to acquire confirmatory data. The interviews were organized in 44 restaurants. Due to the nature of the universe (customers in this industry), some considerations were considered. As far as statistics goes, the formula for infinite populations was applied, getting an output of 386. Therefore, 386 observations were gathered from around Guadalajara´s metropolitan area, Mexico. It was carried out within a time-lapse from August to September 2023. To examine the given data, it was imperative to utilize SPSS 20.0 software for processing.

Regarding the measuring tool, a hybrid approach was contemplated. The present study sought to analyze four dimensions: atmosphere innovation (e.g., interior and exterior appearance, colors, music, etc.), food innovation (e.g., portion size, new ingredients, allergen-free, etc.), beverage innovation (flavor, size, mixology, quality, etc.) and service innovation (e.g., POS terminals, online reservations, smartphone applications, promptness, etc.). Such an instrument considered such dimensions and was pinpointed to delve into 32 items, which were analyzed through a Likert scale measuring accordance levels from 1 – 5 (see Table 1).

- · Atmosphere innovation (7)
- · Food innovation (5)
- · Beverage innovation (6)
- · Service innovation (14)

Table 1

Likert scale

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| Totally disagree | Disagree | Neutral | Agree | Totally agree |

By doing so, several statistical techniques were applied. Mainly, an exploratory factorial analysis was carried out to distinguish impact degrees.

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## RESULTS AND DISCUSSION

Innovation is a multifactorial variable that theoretically subsides through the compression and combination of the variables: atmosphere innovation, food innovation, beverage innovation, and service innovation. The Restaurant Innovation Index (RII) construction arises from the correlation of the variables that operationalize it. Table 2 shows that the variables are positively associated between 53 and 70 percent, which suggests that the dimensions show a statistical dependence between them. As this dependency exists, it is plausible to conceptualize and empirically generate the restaurant innovation index (RII).

Table 2

Correlations

| | | Atmosphere | Beverages | Food | Service |
|---|---|---|---|---|---|
| **Atmosphere innovation** | Pearson´s correlation | 1 | .537[**] | .588[**] | .575[**] |
| | Sig. (bilateral) | | .000 | .000 | .000 |
| | N | 376 | 376 | 376 | 376 |
| **Beverage innovation** | Pearson´s correlation | .537[**] | 1 | .668[**] | .591[**] |
| | Sig. (bilateral) | .000 | | .000 | .000 |
| | N | 376 | 376 | 376 | 376 |
| **Food innovation** | Pearson´s correlation | .588[**] | .668[**] | 1 | .703[**] |
| | Sig. (bilateral) | .000 | .000 | | .000 |
| | N | 376 | 376 | 376 | 376 |
| **Service innovation** | Pearson´s correlation | .575[**] | .591[**] | .703[**] | 1 |
| | Sig. (bilateral) | .000 | .000 | .000 | |
| | N | 376 | 376 | 376 | 376 |

**. The correlation is significative at 0,01 (bilateral)

The consistency scale of Cronbach's Alpha .862 (see Table 3) allows us to verify that the scale presents considerable reliability since it lies in the "very good" categorized range. In this sense, to support, with greater weight, the feasibility of operationalizing the RII global indicator, the reader is shown the Kaiser Meyer Olkin (KMO) measure of general adequacy and the Bartlett test of sphericity (see Table 4). This test shows how solid or adequate the factor analysis solution would be. In more detailed terms, it shows what percentage of the

total variance the analyzed variables have in common; it turned out to be 0.817, a value close to one, which indicates that the factorial analysis by principal components is not only desirable but also presents an excellent adaptation to the data structure.

Table 3

Feasibility statistics

| Cronbach´s alpha | N of elements |
|---|---|
| .862 | 4 |

Table 4

KMO and Barlett´s test

| Sample adequacy measurement Kaiser-Meyer-Olkin. | | .817 |
|---|---|---|
| Bartlett test | Chi-squared | 696.285 |
| | Ld | 6 |
| | Sig. | .000 |

Bartlett's sphericity test (see Table 4) shows that the critical level is less than 0.01 to support what was already observed in the correlation matrix. Therefore, it is possible to reject the null hypothesis that the correlation matrix of our variables is an identity (I). We are considering the adjustment of the variables through factor analysis as appropriate.

Table 5

Communalities

| | Initial | Extraction |
|---|---|---|
| Atmosphere | 1.000 | .631 |
| Beverages | 1.000 | .689 |
| Food | 1.000 | .782 |
| Service | 1.000 | .732 |

Extraction method: Principal components analysis

Finally, through the spectral decomposition of the correlation matrix, the eigenvalues of the correlation matrix were obtained, and it turned out that the linear combination of the study variables leads to a total explained variance of the RII of 70.85% in its principal component (see table 6).

Table 6

Total explained variance

| Component | Initial eigenvalues | | | Squared saturation additions of the extraction | | |
|---|---|---|---|---|---|---|
| | Total | % variance | % accumulated | Total | % variance | % accumulated |
| 1 | 2.834 | 70.856 | 70.856 | 2.834 | 70.856 | 70.856 |
| 2 | .479 | 11.978 | 82.833 | | | |
| 3 | .407 | 10.184 | 93.017 | | | |
| 4 | .279 | 6.983 | 100.000 | | | |

The RII is empirically conceptualized as follows

$$IIR_j = U_1 FI_j + U_2 SI_j + U_3 BI_j + U_4 AI_j$$

Where:

$IIR_j = Restaurant\ innovation\ index\ j\ th\ restaurant$

$SI_j = Service\ innovation\ j\ th\ restaurant$

$FI_j = Food\ innovation\ j\ th\ restaurant$

$BI_j = Beverage\ innovation\ j\ th\ restaurant$

$AI_j = Atmosphere\ innovation\ j\ th\ restaurant$

$U_k = Shows\ the\ relative\ weight\ that\ each\ variable\ has\ regarding\ RII$

The components matrix shows the relative weight that contributes each dimension to the global indicator

Table 7

Components matrix

|  | Component |
|  | 1 |
| Food innovation | .884 |
| Service innovation | .855 |
| Beverage innovation | .830 |
| Atmosphere innovation | .794 |

Extraction method: Principal components analysis.

a.  1 Extracted component

# CONCLUSION

After completing the data analysis, it is crucial to highlight the fulfillment of the objectives in the current study. Adjustments were necessary throughout the entire process to meet these objectives. The development of the Restaurant Innovation Index was indispensable for conducting the study, as it provided the basis for conclusions. Initially, each dimension was analyzed independently to assign a singular weight to each factor. This approach facilitated appropriately handling factors based on the study's nature.

On one side, the theoretical landscape of innovation in the restaurant industry within the GMA (Guadalajara Metropolitan Area) was thoroughly examined. Additionally, practical and tangible data were scrutinized to compare and contrast the theoretical framework. Moreover, critical factors influencing the restaurant industry within the GMA were identified and specified.

Despite the complexity of the phenomenon, various statistical techniques were employed. These techniques indicated a robust correlation between variables, confirming the appropriateness of the measurement and the relevance of the applied methods. Therefore, it is essential to highlight that the output was quite outstanding since the variables' association was positive. By stating this, the study provides enough evidence to declare that the

theoretical framework and what we customers experience daily are consistent. It all has been analyzed from a customer's perspective.

The main goal was to determine the innovation's impact on the full-service restaurant industry in Guadalajara's metropolitan area. To do this, an index innovation was made up based on its four main dimensions. Food innovation (.884) turned out to be the most important one, meaning customers care a lot about what they eat. The restaurant industry should be cautious regarding food proposals, changes, or modifications. Either way, there is statistical and scientific evidence regarding staying sharp. As has already been stated, food and service innovations are the main reasons why customers go out. The overall experience is primarily shaped by how individuals perceive flavor, quality, aroma, portion size, uniqueness, presentation, and novelty. This constitutes the fundamental and core reason for adhering to the culinary experience.

Service innovation (.855) was the second key element here. The components matrix showed that it fell behind food innovation. Even though both figures are acceptable, a gap was visible. These two dimensions go along. Service innovation needs a leap of faith to exceed customers' expectations since previous studies have shown that the industry has been regarded as one of the best in Guadalajara's metropolitan area.

As for beverage innovation (.830), the industry is doing all right. However, a couple of aspects might be aspects that are entirely covered. There is a slight difference between food, service, and beverages. The impact that the study has shown does not hurt the industry. There is a slight gap of .054 regarding food innovation.

In summary, customer judgments reveal a consistently competitive landscape within the entire industry. Hence, the conception of the global indicator became imperative, aiding in assessing innovation's impact on the industry.

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