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## LINKING BUSINESS STRATEGIES AND DIGITAL MARKETING TO COMPETITIVE ADVANTAGE IN LOCAL CAFES IN MALAYSIA

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### Abstract:

The cafe industry in Malaysia has experienced rapid growth over the past decade, driven by lifestyle changes, urbanization, and the increasing popularity of coffee culture. However, these cafes face intense competition from international brands and market saturation, signals the imperativeness in identifying effective strategies for sustainable competitiveness. This concept paper examines the relationship between business strategies and competitive advantage among local cafes in Malaysia, with a focus on the moderating role of digital marketing. Drawing on Porter's Generic Strategies cost leadership, differentiation, and focus and the Dynamic Capabilities Theory, this concept paper proposes that digital marketing strengthens the impact of strategic choices on competitive advantage. Cost leadership allows cafes to attract price-sensitive customers through efficiency, while differentiation emphasizes unique offerings and brand identity, and targets niche markets with tailored experiences. Digital marketing, encompassing social media, e-commerce, and online customer engagement, enhances these strategies by improving visibility, customer relationships, and market adaptability. It enables cafés to sense opportunities, respond swiftly to consumer trends, and reconfigure resources to sustain performance. The proposed framework highlights that digital marketing is a strategic enabler that amplifies the

effectiveness of business strategies. This study contributes to the literature review by understanding how local cafes can leverage strategic and digital capabilities to build lasting competitive advantages in an increasingly digitalized and competitive environment. Future empirical research is recommended to validate the proposed model and guide local cafe owners in developing integrated strategic and digital approaches for long-term success.

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**Keyword:**

Business Strategy, Competitive Advantage, Digital Marketing, Local Cafes, Malaysia



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## Introduction

The rising popularity of the coffee culture, faster urbanisation, and shifting consumer lifestyles contribute to the expansion of the cafe industry within Malaysia over the last decade (Tuan Norhafizah et al., 2024; Yahya et al., 2022). The local cafes have emerged to become an important social and lifestyle hub, especially among the young consumers with more emphasis on convenience, comfort and distinctive experience. However, the competition has also been compounded by the fact that the number of international chains like Starbucks, The Coffee Bean and Tea Leaf, among other speciality coffee brands, is also on the rise. Local cafes must ensure that they establish competitive business models to stand out while remain profitable in the competitive environment.

Local cafes in Malaysia have turned out to be the tourist attraction areas that promote the economy through a composite of culture, lifestyle as well as business. These cafes attract the locals and international travellers who are interested in having real social and cultural activities besides eating. Indeed, research demonstrates that modern, hipster cafes, particularly in urban settings, such as the Klang Valley and Johor Bahru, enhance the tourism experience by creating a distinctive ambience, aesthetics, and local identity that follows the increase in food tourism trend (Huang et al., 2017; Saleh et al., 2024). Cafes enhance the tourism and creative economy of the country because they enrich the history of the multicultural cuisines of Malaysia. As cultural heritage resources, family-owned coffee shops and small cafes have an opportunity to enhance entrepreneurship, employment, and local revenues on the basis of the hospitality value chain (Foo et al., 2013). These cafes improve the tourism industry in Malaysia and increase the economy through the creation of innovation, culture, and service quality.

Firms can achieve competitive advantage either by use of cost leadership, differentiation, or focus strategies, as Porter founder of Generic Strategies, states (Porter, 1980). However, the success of these strategies also varies with the capability of a firm to use digital tools to attract and keep its consumers. Digital marketing, e-commerce, online delivery models, social media, and the use of influencers have changed how businesses communicate with their clients and develop relationships with clients (Chaffey & Ellis-Chadwick, 2019). Digital marketing is not only effective in promoting the local cafes in terms of brand visibilities, but also in creating customer loyalty and expansion to the market. Even with these opportunities, there are several local cafe owners in Malaysia who do not have a fundamental idea on how digital marketing can make their strategic decisions more effective (Abdul Malik et al., 2024).

Relatively, the cafe businesses in Malaysia are performing well, but most of the local cafes are insufficiently competitive and unsustainable in the long run. The rapid emergence of new cafes, particularly in large cities, has led to market saturation, resulting in an abundance of choices for the customers and intensified competition among the business owners (Moorthy et al., 2017). As a result, there is a recurring challenge to most local cafes, namely, increasing operating costs, a weak loyalty of the customer and low differentiation with competitors (Lee et al., 2017). When others embrace cost leadership strategy, which involves coming up with low-cost menu items, others embrace a differentiation strategy by unique ambience, speciality drinks, or special menu items. Nevertheless, not all businesses respond to such strategies in a similar way to create sustainable competitive advantage (David et al., 2020). The most plausible reason is related to the different levels of how cafes use the digital marketing within the strategic implementation strategies, and the business resources constrains.

In addition, vicious challenges such as limited branding power, gaps in digital capabilities, and resource constraints, which hinder the local cafes' ability to compete effectively with well-established international chains (Lee et al., 2017; Abdul Malik et al., 2024). These limitations restrict their capacity to implement strategic initiatives consistently and to leverage digital platforms for customer engagement and market expansion (Chaffey & Ellis-Chadwick, 2019). Consequently, over-reliance on traditional competitive strategies alone is increasingly insufficient in today's digitally driven marketplace, highlighting the need to integrate business strategy with digital marketing practices to achieve sustainable competitive advantage (David et al., 2020; Kumar et al., 2020).

Digital marketing is a new key strategic instrument to reach and connect with customers, especially young and technologically advanced consumers, who dominates the cafe culture of Malaysia (Abdul Halim et al., 2025; Shien et al., 2023; Kumar et al., 2020). Nevertheless, most of the local cafes remain very reliant on the conventional approaches to marketing or are somewhat present online. Their inability to create and maintain a competitive advantage over time may be undermined by the gap between business strategies and digital marketing practices.

Despite the growing academic interest in the cafe industry, empirical study and conceptual research remains limited, specifically focusing on local cafes in Malaysia particularly on how business strategies influence competitive advantage within this unique context. Most prior studies have tended to examine general hospitality or foodservice sectors, leaving a gap in understanding the nuanced strategic challenges and opportunities faced by Malaysian local cafes (Yahya et al., 2022; Saleh et al., 2024). Furthermore, there is a lack of integrated models that explicitly incorporate both traditional business strategy frameworks and digital marketing

practices as a moderating factor, which limits comprehensive insights into how digital tools influence the effectiveness of cost leadership, differentiation, and focus strategies on these settings. This conceptual gap underscores the need for research that not only investigates strategic choices but also on how digital marketing can interact with these strategies to sustainably improve competitive advantage for local cafes in Malaysia.

Therefore, a study of the effects of various business strategies (cost leadership, differentiation, focus) and their impacts on the local cafes in Malaysia's competitive advantage, as well as the study of whether the practice of digital marketing moderates between the two, is necessary. Through the improved understanding of this relationship, local cafes will also be empowered to make crucial insights into how they can apply digital technologies strategically to grow their market share, customer base, and the success of the business.

## **Literature Review**

### ***Local Cafe in Malaysia***

Local cafes and traditional kopitiam, mostly family-run SMEs that make up 96.1% of all business establishments in Malaysia (SME Corp Malaysia / Department of Statistics Malaysia, 2024), play a vital role in the nation's economy by generating employment, supporting local livelihoods, and contributing to GDP growth. Beyond their economic value, these establishments serve as cultural heritage icons and key attractions that boost tourism and promote Malaysia's culinary identity. The rapid expansion of branded local coffee chains has further stimulated market growth, job creation, and investment opportunities. Additionally, a vibrant café sector strengthens local supply chains by supporting local coffee farmers and related industries, reducing dependence on global imports while fostering sustainable domestic economic development.

Besides that, a local cafe in Malaysia is a small to medium-sized independent business, which mainly offers coffee, beverages, light meals, and desserts, in a cool and social atmosphere environment. Local cafes give priority to tailor-made service, unique ambiances, and menus that are locally inspired and reflects the Malaysian cultures and tastes. The local aspects seen in these cafes often include the incorporation of local food culture, cultural decor, as well as markets or community focus, such as serving different consumer groups like students, professionals, and tourists (Yusof & Ismail, 2020). The rise of local cafés can be attributed to the expanding coffee culture, urbanisation, and the growing demand for experiential dining, with leisure becoming an integral component of contemporary lifestyles (Yahya et al., 2022). Local cafes have, in the past decade, become a significant part of the Malaysian social and creative economy, with the creation of entrepreneurship, cultural identity, and tourism, as well as forming the larger hospitality and service industries (Farid, 2021).

Malaysia's local cafes face several strategic challenges. Heavy dependence on imported coffee beans increases costs due to the price fluctuations and limits competitiveness, affecting cafés that rely on cost leadership. Growing competition and rising demand for premium and sustainable coffee beans push local cafés to adopt differentiation strategies through quality, branding, and unique customer experiences. Simultaneously, labor shortages and price-sensitive consumers make operations more difficult. However, the adoption of digital marketing and technologies such as QR-code ordering, AI-driven loyalty programmes, and delivery applications provides cafés with new avenues to attract customers, enhance

operational efficiency, and strengthen focused differentiation in an increasingly competitive market.

### ***Competitive Advantage***

Competitive advantage is a feature of a firm that enables it to show better results compared with its rivals through providing a higher value to consumers or performing in an efficient way (Porter, 1985). It is realised in a scenario where a company has qualities or capabilities to be able to perform better than the others in the same industry. The Resource-Based View (RBV) argues that internal resources and capabilities of a firm play a pivotal role in attaining the sustainable competitive advantage if they are valuable, rare, inimitable and non-substitutable (Barney, 1991; Wernerfelt, 1984). These resources can be physical assets, technology, skills set of humans, brand reputation, as well as organisational culture that have the combined effect of improving performance and market stance.

The competitive advantage may be in the form of strategic location, good brand name, unique product offer or superb customer service. In the case of local cafes in Malaysia, customer loyalty and repeat business can be greatly attributed to the capability of offering a superior customer experience because of ambience, bespoke service, or local cultural features. Nonetheless, to maintain the benefit, one should be innovative and flexible to new market trends and shifts in customer tastes (Grant, 2016).

Moreover, the competitive advantage of a business in the modern digitalised world is susceptible on its capacity to critically use technology and marketing innovations. Local cafes have capabilities in integrating digital instruments to their practices manage to improve customer interaction, enhance their brand recognition, and distinguish themselves better than their rivals (Homburg and Wielgos, 2022). This underscores the need to match strategic planning with a digital marketing campaign to improve competitive advantage and growth in the future in the cafe industry in Malaysia.

For this paper, competitive advantage is operationally defined as the extent to which local cafes achieve superior performance relative to competitors, measured through three key dimensions: financial outcomes (sales growth, profitability, and cost efficiency), customer-related outcomes (customer satisfaction, loyalty, and repeat patronage), and brand performance (brand awareness, perceived brand value, and market reputation). These dimensions collectively capture how business strategies and digital marketing practices translate into sustainable market success.

### ***Business Strategy***

According to Porter (1980), organisational competitive advantage may be attained using three generic strategies, namely cost leadership, differentiation, and focus. The cost leadership approach focuses on reducing the costs of production and operation to sell goods or services at the most reasonable price, enable firms to engage shoppers who pay attention to prices and have a high market share. The differentiation strategy is based on developing unique value through high product quality, innovation, customer service, or brand image, which allows firms to use high premium prices and build brand loyalty. In the meantime, the focus strategy is aimed at particular customer groups or niche markets where products and services are sold to suit the specific needs of the groups. Individually or collectively, these strategies enable firms with a

framework on how they can position themselves competitively in their industries and gain long-term profitability (David et al., 2020).

Moreover, such strategies have also been popularly utilised in industries to describe firm success (David et al., 2020). Differentiation of atmosphere, handcrafted coffee, or personalised service is often a key trigger of customer loyalty and profitability within the cafe industry. Nevertheless, cost leadership and more focused strategies are also not to be ignored in smaller cafes that can target niche audiences or benefit from affordability.

### ***Cost Leadership Strategy***

The cost leadership approach focuses on the point of having the lowest operational costs and of production in the industry to provide a competitive price and access to price-sensitive customers (Porter, 1980). Companies may use lower prices in comparison to their rivals, but this does not imply that they cannot remain profitable; they only require balancing supply chains, refining operations, and economies of scale (David et al., 2020). Cost leadership can be interpreted in the cafe business to include, but not limited to, simplified menu lists, efficient procurement of coffee beans or standardised processes in waste reduction and overheads. Affordability is a key issue that most small and medium-sized cafes in Malaysia must focus on as a means of attracting students and middle-income consumers to their outlets due to their willingness to choose cheaper alternatives (Abdullah et al., 2022). Nevertheless, this approach would require continuous cost control and operational effectiveness at the expense of the quality of the provided services because extreme cost reduction would negatively affect the experience and reputation of the company. Accordingly, in this paper, cost leadership strategy is operationally defined as the extent to which local cafes emphasise cost efficiency and affordability through practices such as controlling operating expenses, offering competitively priced menu items, optimising procurement processes, and improving operational efficiency while maintaining acceptable service quality, as perceived by cafe owners or managers relative to competitors.

### ***Differentiation Strategy***

Differentiation strategy is defined as the extent to which local cafes emphasise uniqueness through product quality, ambience, branding, service personalisation, and innovative offerings, as perceived by cafe owners or managers relative to competitors. The differentiation strategy is aimed at developing rare products that offer better value and that make a difference between a firm and its competitors (Porter, 1980). Variation may be provided by the special atmosphere, solid brand identification, product novelty, customer experience, or high quality (Grant, 2016). For the local cafes, the differentiation can be translated in the form of offering specialty coffee, a theme or comfortable interiors, personalised customer service or local culture branding. Moreover, experience value is becoming an important factor sought by consumers in the Malaysian cafe business beyond the product, and this strategy seems to be especially relevant in this case. Local cafes that manage to be different from their competitors can then charge high prices and create a customer base. But to remain relevant in an ever-changing market, they should remain creative and innovative too.

### ***Focus Strategy***

Focus strategy is defined as the extent to which local cafes concentrate on specific customer segments by providing specialised products, targeted branding, and customised services, as perceived by cafe owners or managers relative to competitors. Focus strategy involves a particular segment or niche of the market that creates products and services to satisfy the requirements of a given segment (Porter, 1980). Instead of competing in an extensive market, firms using the focus strategy focus on satisfying a limited number of customers in the market through the provision of specialised products to students, working professionals, or health-conscious customers. In the application of the local cafes, it is done by creating locally based branding positioning strategies that create a sense of belonging and locality, offering organic or ethically responsible coffee that focuses on quality and sustainability, and facilitating the development of vegan-friendly menus that interest the health-conscious and eco-conscious customers. The narrow coverage enables the cafe to make more connections with the target customer and specialises in serving them with their preferences. However, it is difficult to remain relevant when consumer preferences are changing as cafes must continuously change their offerings and simultaneously remain in their niche (Teece, 2007).

### ***Digital Marketing as a Moderating Variable***

Digital marketing is the application of internet tools like mobile apps, social media sites, websites, and e-commerce to inform clients, advertise products, and create long-term relationships (Chaffey and Ellis-Chadwick, 2019). Digital marketing is defined as the extent to which local cafes utilise digital platforms such as social media, online ordering systems, digital promotions, and content marketing to engage customers, promote offerings, and support strategic objectives, as perceived by cafe owners or managers. The online space also helps businesses to send mass messages to many people in a minimal amount of time and provides immediate responses that can later inform strategic planning. Social media platforms such as Facebook, Instagram, and TikTok have also become increasingly important in brand image development and consumer buying behaviour impacts of the Malaysian cafe business (Shien et al., 2023). Local cafes have an opportunity to improve their interaction and commitment through the focus on the brand personality, the menu innovations, and direct contact with the customer due to the successful digital marketing campaigns.

Digital marketing can enhance the business strategy and competitive advantage as a moderating variable. Online promotion and dynamic pricing through online platforms are efficient in encouraging cafes to pursue cost leadership. They also focus on special brand narratives and aesthetic experiences to be distinctive. Furthermore, instead of merely targeting broad customer groups, focused market campaigning enables the cafes to reach niche customer groups through targeted advertising. This moderating position is akin to the Dynamic Capabilities Theory, and this model focuses on the capacity of a firm to detect opportunities, exploit them, and reorganise resources to maintain the competitive advantage in a dynamic environment (Teece, 2007). Those firms that use digital marketing in their strategic planning can respond to the market change and the trends of consumers, which results in increased visibility, better customer relationships, and performance. Digital marketing is, therefore, not only a promotional tool but it is a strategic competency that makes the business strategies more effective in achieving a highly competitive advantage.

## Research Methodology

The proposed study takes a conceptual research design that seeks to derive a theoretical viewpoint regarding the moderating effect of digital marketing on the association existing between business strategy and competitive advantage amidst local cafes in Malaysia. The methodology is aimed at reviewing, integrating and synthesising the relevant literatures to develop a coherent conceptual framework that is based on the known management theories. Precisely, the framework relies on Porters Generic Strategies Framework (1980), on the necessity of creating competitive positioning based on cost leadership, differentiation, and focus strategies; the Resource-Based View (Barney, 1991), on the significance of internal resources and capabilities as any source of sustainable advantage; and the Dynamic Capabilities Theory (Teece, 2007) on how firms adjust their strategic and digital capabilities to fit the changing market conditions.

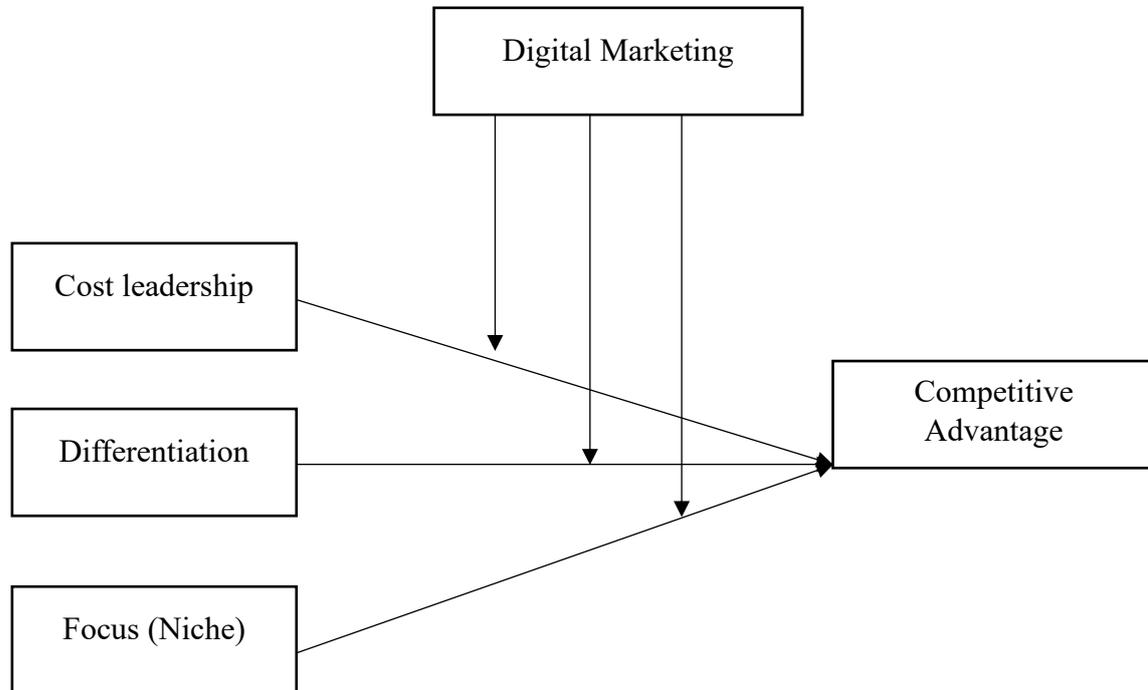
## Conceptual Framework

The concept paper will be based on the principles of the Generic Strategies theory (Porter, 1980) and the Dynamic Capabilities theory (Teece, 2007), which, when combined, characterise the ways firms may develop and maintain a competitive advantage in the dynamic business environment. The model by Porter recognises three key strategic actions, namely, cost leadership, differentiation and focus, when firms may be positioned successfully on the market. Cost leadership involves emphasis on efficiency and cost minimisation, with an aim of providing lower prices, differentiation involves developing a unique value proposition by product quality or branding, and focus involves targeted offering segments that may be subsets of the market. In the cafe markets, these strategies dictate the business model design, motivation, as well as their competitiveness with other local and internationally oriented brands. Nevertheless, in the digital transformation age, the success of those strategies is becoming more and more determined by the capacity of businesses to change and introduce digital tools into their strategic routine (Grant, 2016).

On this background, the offered framework presents the concept of digital marketing as an intermediate variable enhancing the correlation between business strategy and competitive advantage. Online marketing, which includes social media platforms, online delivery systems, influencer partnerships, and e-commerce solutions, develops the ability of a firm to convey its value offer and establish meaningful relationships with customers. Through proper adoption of digital marketing, cafes which seek cost leadership can inform more people about promotions, those seeking differentiation are able to create more brand awareness, and those pursuing focus strategies are able to better reach niche markets. Thus, according to this theoretical framework, although business strategies directly affect the competitive advantage, the effectiveness of business strategies during the moderation of digital marketing practices is more evident.

These two theories are complementary in the context of the cafe industry, as Porter's Generic Strategies explain what competitive positions local cafes may adopt, while Dynamic Capabilities theory explains how these positions can be continuously renewed in response to rapid market and technological changes. While cost leadership, differentiation, and focus provide the strategic direction, dynamic capabilities such as sensing market trends, seizing digital opportunities, and reconfiguring operational resources enable cafes to adapt their strategies through digital marketing practices in an increasingly competitive and digitally driven environment (Teece, 2007; Grant, 2016). Given the fast-changing consumer preferences

and intense competition faced by Malaysian local cafes, integrating these perspectives offers a more holistic framework for understanding how strategic choices and digital responsiveness jointly contribute to sustainable competitive advantage.



**Figure 1: Conceptual Framework**

## Conclusion

To sum up, this concept paper has noted the rising significance of digital marketing in the form of a moderating variable that enhances the association between business strategy and competitive edge within the local Malaysian cafe market. The synthesis of the generic strategies, cost leadership, differentiation, and focus developed by Porter (1980) and modern digital marketing can help realise a multidimensional approach to the positioning of cafes in the market, which is increasingly saturated and technologically focused. Digital marketing allows the operators of the cafe to improve the interactions with customers, make the services more tailored, and establish the level of customer loyalty, which then improves the value of a properly developed business strategy.

From a theoretical perspective, this concept paper contributes to the strategic management and digital capability literature by extending the application of Porter's Generic Strategies and Dynamic Capabilities theory to the context of SMEs, particularly local cafes in Malaysia. It advances existing knowledge by proposing an integrated framework that positions digital marketing as a moderating mechanism linking business strategy to competitive advantage, an area that remains underexplored in small service-based enterprises. Practically, the framework offers structured guidance for cafe owners in aligning strategic positioning with digital marketing practices, while also providing insights for policymakers and SME support agencies in designing targeted capacity-building programmes, digital training initiatives, and resource assistance schemes to strengthen the competitiveness and sustainability of local cafes.

Moreover, the suggested conceptual framework adds to theory and practice by connecting prior views on strategic management with the new paradigm of the digital transformation. It stresses that to attain sustainable competitive advantage, internal resources and operational efficiency are not enough anymore, and must be complemented with the use digital platforms in a strategic way. It is recommended that future empirical research should be able to test the model in a variety of different cafes and various geographical areas in Malaysia, by applying quantitative or mixed methodology to provide the moderation effect of digital marketing. These kinds of studies will enhance the knowledge on strategic fit in small and medium businesses (SMEs) and can offer viable perspectives to cafe business owners aiming at surviving and thriving in a dynamic digital economy.

From a theoretical perspective, this concept paper contributes to the strategic management and digital capability literature by extending the application of Porter's Generic Strategies and Dynamic Capabilities theory to the context of SMEs, particularly local cafes in Malaysia. It advances existing knowledge by proposing an integrated framework that positions digital marketing as a moderating mechanism linking business strategy to competitive advantage, an area that remains underexplored in small service-based enterprises. In practice, the framework offers structured guidance for cafe owners to align strategic positioning with digital marketing practices, while also providing insights for policymakers and SME support agencies in designing targeted capacity-building programmes, digital training initiatives, and resource assistance schemes to strengthen the competitiveness and sustainability of local cafes.

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