The Impact of Local Economic Development on Food and Beverage Businesses in Lakarsantri

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Abstract
The rapid growth of Indonesia's food and beverage industry reflects changing consumer lifestyles and urban economic expansion. This study analyzes the correlation between demand, supply, market equilibrium, and elasticity in Lakarsantri, West Surabaya, with both primary data from an interview with XYZ in X and secondary (supporting) data from external sources, this study explores the impact of economic factors towards small to medium enterprises. Results from the data reveal that demand is influenced by demographic growth, rising incomes, and lifestyle trends, while supply has challenges in terms of labor management and increasing raw material costs. Market equilibrium shows to be different for businesses and depends on the niche (family-oriented or trend-focused) of the business itself. Staple foods like rice tend to have inelastic demand while beverages and trend-based products tend to be more elastic. This study analyzes how business's sustainability and competitiveness are affected by microeconomics and social dynamics.

Keywords: food and beverage industry, Lakarsantri, microeconomics

1. Introduction

The food and beverage industry has been long recognized as one of the most crucial sectors in the business area. It has a role in providing human daily needs such as consumption and social interactions, and many employment chances or opportunities. Competitions have risen upon urban areas since many owners wanted a part in the food and beverage district, the range are mostly from traditional food, modern cafes, restaurants with many kinds of food categories they provide to sell. This buying and selling activities has increased the amount of people taking interest as a consumer to try out new foods and taste, this enriches the community lifestyles.

In the context of development, the F&B industry reveals a valuable outlook of how the supply and demand market works. Unlike global industries, this district-level research focuses more on the understanding of customer preferences and the behavior of medium enterprises. Such analysis figures patterns that play a part as a foundation in starting a business, whether in decision-making or asserting policy.

Lakarsantri is the district that has been analyzed as crowded and youthful as many young people are exploring the place for new cafes or places to hangout. This district has developed greatly in the past several years as it grows in residential areas, infrastructures, as well as educational buildings. With many people moving into this western area of Surabaya, the act of demand and supply interact in a way that grows in the market and opportunities. The balance between potential growth and competitive neighbor causes a suitable circumstance for business analysis.

The purpose of this study is to analyze and observe the food and beverage business area in Lakarsantri. We focus on some key points such as demand, supply, market equilibrium, and elasticity. Consumer behavior has impacts upon demand research, which conclude what certain type of products

is preferred, or perhaps services as well. Additionally, it also affects how sensitive the customer is to change in prices. On the other hand, the supply side refers to how the business responds to the needs of the customers, and how to face unexpected challenges like a sudden pandemic or any other issues that force owners to adapt to hard situations. The market equilibrium connects those two and it identifies whether there are shortages or surplus.

Price elasticity of demand shows how customers are responsive to the change of price, and that helps business owners to set the right price for each product. For example, if a demand in an area of Lakarsantri is elastic, a small change in price may reduce a huge amount of customers. However, if it was inelastic, any change in pricing wouldn't shift the quantity of customers. Since, the products or services that they sell are mandatory and always needed daily. For the elasticity in supply, food and beverage business shows how quickly it can change in order to respond to demands.

At last, this study elaborated on how local businesses develop in both academic and practical ways. Academically, it provides a way on how to apply the fundamentals of economic growth upon this district. For business owners, this offers outlooks on how to deal with consumer behavior, how to set price range, and how to look for opportunities in the market. By examining Lakarsantri, this research in the food and beverage district will deepen the understanding of how markets work in real-life with economics principles such as demand, supply, market equilibrium, elasticity, that plays a significant role in business areas.

2. Literature Review

Food and beverage (F&B) is one of the most important sectors in Indonesia's economy as it accounts for about 7.23% of Indonesia's national GDP (Indonesia's F&B Outlook 2025: Slowing Growth Ahead, n.d.). Its rapid growth is driven by urbanization, rising incomes, and changing consumer lifestyles. At the same time, the industry provides a practical context for applying key economic concepts such as demand and supply, market equilibrium, elasticity. Understanding these theories helps explain consumer trends, pricing strategies, competitive dynamics and act as a base for assessing the feasibility of entering the food and beverage (F&B) industry.

2.1 Demand And Supply

One of the most relevant concepts is demand and supply. Demand refers to the desire, ability and willingness to purchase a good or service at a given price and time. The law of demand has an inverse relationship, as prices of the product rise, the quantity demanded falls; as prices of the product falls, the quantity demanded increases. On the other hand, supply refers to the quantity of a good or service that producers are willing and able to sell at different prices and at different times. The law of supply has a direct relationship, as the price of a product rises, the quantity supplied increases; as the price of a product decreases, the quantity supplied. With this, it relates to the concept of scarcity, in which resources such as fresh ingredients, labour, and space for restaurants or stalls are limited. This provides a challenge for entrepreneurs to meet the ever-growing demand with its limited resources.

2.2 Market Equilibrium

Market Equilibrium occurs when the quantity demanded equals the quantity supplied at a certain price level, there is no shortage or surplus, which ensures market stability. For example, if a restaurant sets the price of a food too high, demand may fall, leaving food unsold which is excess supply. If the price is too low, more customers may want it than the restaurant's ability to serve, which is a shortage. When supply and demand is balanced, this ensures revenue maximization, customer satisfaction and prevents waste at the same time.

2.3 Price Elasticity and Pricing

Price elasticity refers to how sensitive the quantity demanded or supplied of a good or service is when its price changes, when it's elastic, people react more strongly to price changes and vice versa. Understanding a products' elasticity can act as a key role in setting prices. According to Widarjono, A., & Rucbha, S. M. (2016), their findings revealed that as households move from poorer to wealthier groups, income elasticity and price elasticity becomes more inelastic. If there are changes in policies regarding prices, a rise in food prices would affect lower income greater. Therefore, when it comes to setting prices for menus, consumer responsiveness should be considered across different income groups.

3. Methods

This study uses both primary and secondary methods to collect data in order to understand deeper about the business environment in A, especially in the food and beverage (F&B) industry. Both specific professional experiences and general market developments were captured by collecting data directly from real life situations and combining it with trustworthy secondary sources.

3.1. Primary Data Collection

Interviews and observation were the two methods used for gathering the primary data. Direct observations happened at A at different times during the week and on the weekends. The primary goals were to understand peak hours, number of visitors, and the type of customers, whether they were mixed groups, families, or students. Therefore, it was found that the busiest hours tend to be early hours and lunch hours, and that number of visitors is also higher around weekends. These observations help provide insight into the customer flow and how important it is to maintain a smooth operation during peak hours.

A local F&B business owner and a supervisor were interviewed carefully. The owner gave plenty of information as to what should be put on the menu, such as the quality of the food, the price, and whether the concept should be halal or non-halal. They also shared their consumers' preferences, stating that families often go for shared servings like porridge and students would usually order rice-based meals that are more affordable. These statements help identify different target categories and their demands. The interview also pointed out how they use fresh ingredients, how they provide great customer service, advertise themselves on social media, and participate in bazaars to keep customers coming back.

The supervisor also discussed common difficulties and service issues, such as poor communication, mistakes with standard operating procedures (SOPs), and staff management. They also explained how they keep strong relationships with suppliers by making solid agreements and how they handle unpredictable raw material price increases, usually by reducing portion sizes while still maintaining the same quality. With the help of this information, the problems can be spotted and the most effective methods for managing a food and beverage (F&B) firm can be determined.

3.2. Secondary Data Collection

Secondary sources such as local government reports and Badan Pusat Statistik (BPS) were used to support these conclusions. Based on demographic data, Surabaya has a larger younger population, which increases demand for affordable and trendy dining options. Economic data also showed constant rises in consumer spending which helped prove the potential of the F&B industry in the surrounding area. By combining these methods, the study provides a wider foundation for the analysis by linking the actual business owner and supervisor practices with larger demographic and economic trends.

4. Results and Discussion

The interview with the supervisor of XYZ in X, Lakarsantri, showed the operation of a business in the food and beverage field. The menus served are decided by the owner, as well as the concept and consideration of serving halal or non-halal food. The production of the products requires fresh products, working efficiency and cost control to balance with the price the consumers are willing to pay.

Graph 1.1 Number of costumer from each costumer groups

Graph 1.2 Number of customers in specific time of day

The restaurant's customer base is diverse, although families are the main focus group, as shown in table 1.1. Students and young customers also take up a large portion of customers which reflects the demographic variety of Lakarsantri. The busiest times of the day according to the data are mornings and afternoons, this can also be seen in table 1.2. In order to ensure repeating customers, consistency in taste, affordability and service is required in order to build loyalty. The restaurant also needs to balance and remain consistent with different menu preferences amongst the customer groups, where students prefer rice-based dishes, parents or elders prefer porridge and large groups of people or families prefer to select shared meals.

In order to maintain good relationships with suppliers, XYZ relies on mutual trust as well as payment agreements. When facing rising costs of production, instead of raising the product prices, the restaurant focuses more on reducing food portions and increasing drink prices in order to manage expenses. The restaurant's marketing strategy includes the usage of social media and community bazaars, with the focus on promoting the brand for recognition. The signature dishes of the restaurant and the quality of their service allows them to stay competitive in the market. However, the challenges for the business lean more towards the management of the employees and ensuring a consistent standard operating procedure (SOP).

The primary data obtained from the interview with XYZ's supervisor reflects the observable economic condition of food and beverage businesses in X, Lakarsantri. To support the primary data, secondary data from external sources will be used to further explain the economic conditions of the area along with the challenges to open a food and beverage business.

According to BPS (Badan Pusat Statistik) Kota Surabaya (2024), the Lakarsantri district has a steadily growing population, which consists mostly of families and young people. Other than that, the district has also expanded in terms of educational institutions which creates a new opportunity for the businesses to reach students, which aligns with XYZ's consumer base of families and students.

In recent years, the household income levels in West Surabaya have risen, especially in middle income families. Rahmawati and Hidayat (2020) highlight that Indonesians are becoming increasingly discrete on spending money to dine out, especially in urban areas. Studies on lifestyle (Anggraeni & Wardhana, 2021) shows that younger customers, both students and professionals, correlate dining with social identity and seek affordable but also ambience and branding.

The food and beverage industry in Surabaya also has intense competition, especially in dense areas like A, where a large number of similar businesses may create both opportunity as well as risks (Porter, 1998). The challenge of increasing the price of supplies and raw materials in small and medium enterprises are also affected by informal supplier agreements that do not give businesses guarantees (Utami & Sari, 2022). Other than that, difficulties in labor management, including turnover and standardized training, are also common in the industry (Sari, 2021).

In order to provide an accurate analysis, the case of XYZ has to be understood along with the socioeconomic conditions of the district, Lakarsantri. Located in West Surabaya, as a district, Lakarsantri has been growing in both demographic and economic conditions with increasing urban expansion and middle-class consumption (Badan Pusat Statistik [BPS] Surabaya, 2024). The district acts as a fertile ground for food and beverage businesses with its growing population of families, students, and working professionals. The data obtained will reflect the micro-level difficulties and system of running a restaurant while also analyzing the macroeconomic factors affecting the industry.

In the district, Lakarsantri, A in X also acts as a culinary destination with plenty of restaurants, cafes and food stalls that all compete for customer's attention. Amongst all the types of businesses opened the three most common ones are dining restaurants (e.g. ABC), student friendly restaurants (e.g. XYZ) , and specialty cafes (e.g. ASD). Casual dining restaurants usually gave families as their customer base and usually serve Indonesian or fusion dishes. Student friendly food stalls mostly compete in terms of price, offering dishes of rice or noodles that are appealing for students from nearby schools or universities. Specialty cafes on the other hand target young professionals and students who appreciate ambience and consumption of lifestyle products, these cafes serve coffee, pastries and international menu items.

The existence of other surrounding businesses create both opportunities for collaboration as well as risks of competition. The density of the amount of businesses in X allows a competitive environment to bloom, which makes product differentiation essential. According to Kotler and Keller (2016), businesses in competitive markets can not only compete in terms of pricing but also require a unique value that differentiates them from other businesses. For XYZ, this differentiation lies in their signature dishes, brand recognition and a family oriented identity. With the vast amount of businesses, the customer base of the area also expands, which can also be described as agglomeration economies, which suggests that the presence of multiple businesses in the same area can cause an increase in total demand, even when competition intensifies (Porter, 1998).

There are several factors that influence the demand in Lakarsantri, including demographics, income levels and lifestyle trends. According to BPS Surabaya (2024), there has been a steady population growth in large proportions of families and young people, this growth demographic shows us how restaurants like XYZ are able to reach both customer bases. Household incomes are also rising as the district undergoes suburban development which allows more discretion on spending money to dine out. According to Rahmawati and Hidayat (2020), consumer spending in middle-income households on dining out in Indonesia has been steadily increasing. Lastly, young consumers in Surabaya have been increasingly viewing dining as a social activity used for leisure and identity expression which creates opportunities for businesses as they create ambience, menu novelty, and enhance their branding, which are just as important as their affordable prices (Anggraeni & Wardhana, 2021). Combining these factors will create an intricate demand structure that reflects the business as consumer bases have different priorities and values which pushes businesses like XYZ to not only maintain affordability but also their unique differentiation.

Supply challenges the data from XYZ highlights two main problems for businesses in the food and beverage industry, which are: labor management and raw material sourcing. The labor management issues primarily comes from the management of employee performance and ensuring the employee's compliance towards standard operation procedures, which are also consistent with findings by Sari (2021), who notes that employee turnover and lack of standardized training are persistent issues for small to medium businesses in Indonesia which may create consumer dissatisfaction. Raw materials supply issues, on the other hand, are more focused towards the rising prices, which constantly pose an issue. The issue of rising prices correlates with research by Utami and Sari (2022), where the inconsistency of the price changes in Indonesia due to seasonal availability and import dependencies are reviewed. In XYZ's case, the strategy they implement in order to maintain their affordability while also following the increase of prices for raw materials are to reduce food portion sizes and increase the drink prices, however, these strategies may also affect consumer's perceptions of value.

In terms of analyzing the market equilibrium in X, Lakarsantri, with a complex market and dense amount of businesses, the analysis of market equilibrium in the area is complex. With many businesses in the food and beverage field, the market is experiencing oversupply, especially in terms

of student-based food stalls. This tends to cause the equilibrium price of the market to fall, forcing businesses into price-based competition. However in other types of businesses like the family-oriented businesses or specialty businesses, the equilibrium can be maintained at a higher level, like XYZ, where their focus on family as their customer base allows them to obtain demand in that niche. This also relates to Kotler and Keller's (2016) theory of competitive differentiation where markets are saturated with similar offerings, but businesses that cultivate unique attributes can sustain equilibrium without lowering prices excessively. Therefore, the market equilibrium in X, Lakarsantri differs between different businesses.

The elasticity of demand varies by product category, products like rice are seen as a necessity and have relatively inelastic demand, so, families and students will both still purchase it even if price rises as it is a staple for daily meals. While other products like beverages and trend-driven menus have elastic demand and are more sensitive to price changes, as according to Rahmawati and Hidayat (2020), this can also explain why XYZ prefers to increase the price of beverages when facing raw material price increases and reduce the portion of the food served instead of the price. Elasticity also relates with consumer lifestyle, where for younger and trend-driven generations, demand is elastic making them sensitive to changes in price, novelty and brand perception. Therefore in order to avoid customers from shifting to another business and remain loyal, business owners need to create a unique value that differentiates them from other products. Overall, elasticity of demand in X and Lakarsantri is multidimensional as it is shaped by both social and economic factors.

The concept of opportunity cost also occurs in running businesses in the food and beverage industry, in XYZ for example, when developing the menu, the owners have to choose between focusing on family-oriented dishes or following trends and trendy menu items, both choices have their own advantages and disadvantages. However in XYZ's case of choosing to pursue family-oriented meals, they are able to obtain customer loyalty and avoid having to constantly capture an ever changing virality market. Another opportunity cost occurs in resource allocation in terms of promotion, where the usage of marketing through bazaars or the business's social media may be cheaper but takes longer to reach customers and build loyalty, but on the other hand, partnerships with delivery platforms or collaborations with an influencer are more expensive but may reach more people and customers than using the business's social media or bazaars. In another case, XYZ also experiences opportunity cost when deciding what to spend time on between training employees or developing the menu or physical renovations. However, in the end, by prioritizing employee management XYZ is able to invest and prepare for good long-term service quality which may be an essential part to differentiate businesses for small to medium companies.

In summary, the primary data obtained from XYZ and the secondary data obtained from external sources showcase what impacts the decision making in a business in the food and beverage field. The demand of the product is influenced by demographics, income and lifestyle, while supply is constrained by labor management and also price increases. The market equilibrium in X is complex due to the different types of businesses there are, with oversupply causing low equilibrium in student friendly dining but higher equilibrium in food and beverage businesses in other niches like specialty or family-oriented businesses. The data combined with analysis reveals the complexity of running a business in the food and beverage field in a competitive district, Lakarsantri, in which the culinary market is characterized by correlations between supply and demand, competition and strategic trade offs for opportunity costs.

5. Conclusion

This research shows that running a business in Lakasantri demonstrates the close connection between economic theory and practical business operations, especially in the food and beverage (F&B) sector. The district's supply is influenced by issues like labor management, competitive density, and rising raw material costs, while demand is driven by demographics, rising incomes, and lifestyle trends. Market equilibrium is determined by the balance of these forces and varies depending on the business niche, with family-oriented restaurants maintaining greater stability and student-oriented stalls facing oversupply. Besides that, price elasticity is also important because while demand for staples like rice is inelastic, that of beverages and trend-driven menus is more elastic.

This highlights how crucial it is to develop pricing strategies that take into account the sensitivity and preferences of customers. By combining those economics theories it shows that demand, supply, elasticity and equilibrium can create opportunities and challenges in the F&B market. Lakarsantri is a useful case study of how economics and business choices interact in a developing urban area for scholars and entrepreneurs alike.

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