A Pilot Study on the Opportunities and Challenges among SME Tourism in the Heritage Food Industry in Kota Kinabalu, Sabah

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Abstract

Study based on small and medium entrepreneurs (SME) shows that tourism has increased since 2019. However, the involvement of Tourism SMEs in the food heritage industry still needs to be improved. A qualitative research design was proposed to investigate the matter, and a pilot study was initiated. This paper aims to understand opportunities in the heritage food industry and explore the challenges. Tourism SMEs of food heritage producers are the informants to understand their business. This pilot study was done to help researchers gain first-hand experience with the settings and data collection to strengthen their confidence in executing the research.

Keywords: Opportunities, Challenges, SME Tourism, Food Heritage

1.0 Introduction

The heritage foods industry often serves as a magnet for tourists, offering a sensory and immersive experience. Food heritage comprises agricultural goods, components, recipes, meals, preparation methods, and culinary customs. Along with table etiquette, the symbolic meaning of food and its more tangible components, cooking tools, and dishware are also included (Bessiere & Tibere, 2013). In addition to its allure for tourists seeking immersive experiences, the heritage foods industry is crucial role in cultural preservation. Preserving culinary traditions and heritage foods is not merely about safeguarding recipes and ingredients but also about protecting cultural identity and fostering cross-cultural exchange (Omar & Omar, 2018). Moreover, food heritage tourism promotes cross-cultural understanding and appreciation by inviting visitors to explore the gastronomic traditions of different communities (Antón et al., 2019). Through culinary
experiences, tourists gain insight into diverse cultures’ values, beliefs, and traditions fostering empathy and appreciation for cultural diversity. Common stakeholders in the food heritage industry include cultural groups and communities, chefs and cooks, families and individuals, and farmers and producers (Ghazali, 2020). Furthermore, small and medium entrepreneurs (SME) Tourism is one group that also provides and produces food for international or domestic tourists. Meanwhile SME tourism encompasses a wide range of products and services, including homestays, accommodation, crafts, souvenirs, food, and tourism activities (Md Ramli et al., 2022). There remains a notable gap in our understanding of how different SMEs within the industry navigate the complex landscape of opportunities and challenges. Although several studies have explored general trends and challenges SMEs face in tourism, a lack of research specifically focuses on the unique dynamics and intricacies of SMEs operating in the heritage food sector. For example, a review paper on the Challenges of SME tourism from 2017-2021 shows that the previous paper explored the challenges of SMEs in general and did not focus on the sector (Md Ramli et al., 2022). Furthermore, while sustainability and community development are widely recognized as critical goals for SME tourism, there is limited empirical evidence on how SMEs in the heritage food industry integrate sustainable practices into their operations or contribute to local community development. By addressing this gap in the literature, we can gain valuable insights into the opportunities and challenges SMEs face in heritage food tourism and develop strategies to support their growth, sustainability and positive impact on local communities.

**Objective**

This study aims to understand the opportunities for tourism SME entrepreneurs to start and the challenges faced by tourism SME entrepreneurs in the heritage food industry.

### 2.0 Literature Review

#### 2.1 SMEs Tourism

Tourism business owners feel capable of starting and running a successful business and are prepared to take on all the risks and unknowns (Sotiriadis, 2018). The establishment and operation of tourism businesses also create new job opportunities. Furthermore, it provides real income and stimulates other industries and productive activities within the local or regional economy. Small companies and tourism have a mutualistic relationship rather than a commensal one. That implies that small businesses also benefit from tourism (Asthana, 2022). According to the United Nations World Tourism Organization (UNWTO), SMEs represent around 80% of all tourism enterprises worldwide (Kukanja et al., 2020). Furthermore, SMEs account for over 90% of all business entities in the EU (Secinaro et al., 2020). Small and medium enterprises (SMEs) are entrepreneurs that need to meet the government’s criteria, such as the number of employees and turnover (Gvelesiani et al., 2020).

<table>
<thead>
<tr>
<th>Size</th>
<th>Turnover Micro</th>
<th>Employees</th>
<th>Small Turnover</th>
<th>Employees</th>
<th>Medium Turnover</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>&lt; RM300000</td>
<td>&lt;5 employees</td>
<td>RM 300000</td>
<td>5 to &lt; 75 employees</td>
<td>RM 15 million to RM 30 million</td>
<td>75 to 200 employees</td>
</tr>
<tr>
<td>Service and other sector</td>
<td>&lt; RM300000</td>
<td>&lt;5 employees</td>
<td>&lt;RM 300000 to &lt;RM3 million</td>
<td>5 to &lt;30 employees</td>
<td>RM 3 million to RM 20 million</td>
<td>30 to 75 employees</td>
</tr>
</tbody>
</table>

#### 2.2 Heritage Food Industry In Kota Kinabalu Sabah

Various interpretations of food heritage concerning food include its association with agricultural products, its origins in particular regional climates, and its production using traditional methods (Ramli et al., 2016). Businesses are anticipated to attract local and international customers interested in traditional food, which is listed as part of the national food heritage (Ramli et al., 2023). Studying and documenting traditional food-based entrepreneurs in the local area is essential to preserve cultural heritage, such as Kota Kinabalu Sabah. Kota Kinabalu, located in Sabah, Malaysia, is a vibrant city known for its rich cultural heritage, stunning natural landscapes, and diverse tourism offerings. Most research about SME tourism in Kota Kinabalu focuses on the Homestay sector (Dawayan et al., 2018), the Handicrafts sector (Fabeil et al., 2016), the Accommodation sector (Chan & Quah, 2012; Fabeil et al., 2018; Quah, 2017) and furthermore. There are only a few research studies focusing on SME Tourism in food heritage. There is a need to research and explore the opportunities and challenges.

### 3.0 Methodology

#### 3.1 Research Design

Qualitative research is an approach to explore and understand from an individual or group perspective (Creswell & Poth, 2016) how informants convey their experiences and understand the uniqueness and function of their involvement. The exploration of opportunities
and challenges among SME tourism that focus on the food heritage industry has been limited in research. In line with this, the pilot study excerpted the lived experiences through semi-structured, in-depth interviews with two producers of food heritage.

3.2 Sampling
As this is a pilot study, the number of informants interviewed is not subjected to a saturation point where the point of no new emerging data occurs (Patton, 2002). A non-probability, purposive sampling was used, which specifies specific characteristics: Entrepreneur who own traditional food product businesses listed in Heritage Food Malaysia, Producing and selling heritage food for at least five years or more and desire to share their experiences.

3.3 Data Collection and Analysis
The pilot test used a qualitative approach by using a semi-structured interview. The key participants for the qualitative method were local entrepreneurs from Sabah state who sold traditional food listed under the national food heritage. About two (2) informants were chosen to be in this pilot study. The identified entrepreneur participants had been invited via telephone to obtain their willingness to participate in the study. Upon agreement, the researcher conducted the interviews. The semi-structured questions for the interview were open-ended to obtain in-depth and detailed information. Bahasa Malaysia was used as a medium language during the interview and translated into English during transcribing. An interview was transcribed and transformed. The interviewed data were categorized using Atlas. ti is a scientific software development for qualitative data analysis that facilitates the description, analysis, and interpretation of research data collected through unstructured or semi-structured data collection methods (Talib, 2019). For analysis, the transcribe researcher uses thematic analysis, which lists out all the code and finds the suitable theme (Guest et al., 2011)

Trustworthiness is related to validity and reliability in qualitative research. Member checks and peer reviews are undertaken for this pilot study to ensure validity (Merriam, 2009). Member checking is used to determine the accuracy of the qualitative findings by taking the informant’s post-interview transcription (Creswell & Poth, 2016; Denzin & Lincoln, 2018). The peer review is conducted by discussing with supervisors and informal discussions with fellow students and lecturers experienced in research. This aims to provide thoughtful ideas about themes and categories to produce research findings (Miles et al., 2020).

4.0 Results and Discussion

4.1 Informant Profile
Both informants are food heritage business owners based in Kota Kinabalu. SME 1, aged 41, hails from a Bruneian ethnic background, while SME 2, aged 39, identifies with the Malayu ethnicity. Although SME 1 is slightly older than SME 2 by two years, SME 2 boasts significantly more experience in the business world, with 15 years, compared to SME 1, which is seven years in the food heritage industry.

<table>
<thead>
<tr>
<th>Informant</th>
<th>Age</th>
<th>Ethnic background</th>
<th>Business experiences</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME 1</td>
<td>41</td>
<td>Brunei</td>
<td>7 Years</td>
</tr>
<tr>
<td>SME 2</td>
<td>39</td>
<td>Melayu</td>
<td>15 years</td>
</tr>
</tbody>
</table>

4.2 Business Criteria

<table>
<thead>
<tr>
<th>Informant</th>
<th>Employee</th>
<th>Category SME</th>
<th>Location</th>
<th>Heritage Food product</th>
<th>Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME 1</td>
<td>2</td>
<td>Micro</td>
<td>Kampung Likas</td>
<td>Kelupis Frozen</td>
<td>Tourism Expo Supplier Community</td>
</tr>
<tr>
<td>SME 2</td>
<td>6</td>
<td>Small</td>
<td>University Apartment, Plaza</td>
<td>Keropok Lekor</td>
<td>Supplier Franchise</td>
</tr>
</tbody>
</table>

SME 1 falls under the micro category with a smaller team of 2 employees. In comparison, SME 2 is categorized as small, with a team of 6 employees, indicating a difference in scale and possibly resources available for operations and expansion. For the location, SME 1 is situated in Kampung Likas but just for a storage warehouse, while SME 2 operates from their shop lot. Furthermore, SME 1 is producing Kelupis frozen. Kelupis is listed under the National Heritage food list in the Rice, Gravies & accompaniments category. Then SME 2 produces Keropok lekor under the Cake, porridge and, dessert, Gravies, and accompaniments categories. SME 1’s contributions
include being a supplier for Tourism Expos, retail shops, and supermarkets and maintaining a community-oriented approach by providing jobs to single mothers and housewives.

4.3 Buyers Demographic

There are two buyer categories: SME 1 caters to the local community, domestic tourists from various regions, agencies, and supermarkets, indicating a consumer base. Furthermore, the buyers have varied purposes for purchasing from SME 1, including acquiring souvenirs, personal use items, and products for festival-related activities. Lastly, the buyers represent a spectrum of ethnic backgrounds, such as Brunei, Kadazan, Dusun, Murut, and Rungus, suggesting a broad appeal across different ethnic groups indicates that SME 1's products might have cultural significance or appeal to a broad range of cultural preferences.

SME 2 buyer demographic is only the local community, likely individuals residing nearby or within their locality. Supermarkets that indicate a B2B relationship where they might supply products to supermarkets for retail. Also, through franchisees under RAKAN NIAGA. Furthermore, they purchase products for personal use, implying individual consumers buying directly from SME 2. The buyers also engage in resale, indicating that businesses or individuals purchase products from SME 2 to resell them to other consumers. The information does not specify the ethnic background of SME 2's buyers, suggesting that the focus might not be on catering to specific ethnic groups but rather a broader customer base.

<table>
<thead>
<tr>
<th>Informant</th>
<th>Buyers</th>
<th>Purpose of buyers</th>
<th>Ethnic background</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME 1</td>
<td>▪ Local Community ▪ Domestic tourists: Sarawak, Brunei, Peninsular Malaysia ▪ Agencies ▪ Supermarket</td>
<td>▪ Souvenir ▪ Personal ▪ Festival</td>
<td>▪ Brunei, Kadazan, Dusun, Murut, Rungus</td>
</tr>
<tr>
<td>SME 2</td>
<td>▪ Local Community ▪ Domestic tourist ▪ Supermarket ▪ Franchisee</td>
<td>▪ Personal ▪ Resale</td>
<td>▪</td>
</tr>
</tbody>
</table>

4.4 Opportunities for tourism SME entrepreneurs to start a business in the heritage food industry.

Theme 1: Support from the Agency

i) Initiatives

These initiatives encompassed guidance and support in critical areas such as procuring machinery, upgrading licenses, bolstering e-commerce strategies, and refining packaging approaches. Additionally, access to platforms like the IKS mart further facilitated their growth. SME 2's inception phase was supported by familial contributions and increased capital from the owner's spouse. Loans acquired from institutions like Bank Rakyat, TEKUN, and Agrobank and a substantial grant from SME Corp covering rental expenses significantly eased financial burdens. Moreover, SME 2’s proactive engagement in programs like RAKAN NIAGA and successful partnerships and franchises. The involvement of various agencies like MIDE, SEDCO, FAMA, and MARDI indicates a robust support network available to SMEs, extending beyond core categories and contributing to the holistic growth and sustainability of businesses within the industry.

Table 5: Initiatives

| "This DIDR now has BAIKS PROGRAMME for IKS to help entrepreneurs in 4 categories, such as machines, licensing upgrades, e-COMMERCE, and packaging. " (SME1) |
| "Yes, if it does help you a lot, what are the needs of those entrepreneurs who are less able to buy or reduce the cost of spending their own money for the business, right? Like a machine. "RAKAN NIAGA" through kiosks are a very encouraging response. " (SME2) |

ii) Business capital

Opportunity through business capital. SME2 received initial support from family members. The family's contributions- financial backing and loans- were pivotal in establishing the venture. SME2's husband increased capital, while loans were acquired from Bank Rakyat, TEKUN, and Agrobank, which are affiliated with the government. SME Corp's grant support was particularly impactful. An RM 45,000 grant was provided when SME2 was just six months into renting the shop lot, securing future rental payments and alleviating immediate financial pressure.

Theme 2: High demand

i) Order from buyers

Opportunities through high demand. SME1 received a significant order for kelpies from a friend, amounting to 1000 pieces. Unfortunately, the friend did not follow through with the purchase, leaving SME1 with surplus stock and the challenge of finding buyers. To address the surplus, SME1 explored different avenues and decided to attempt selling the 1000 pieces at the newly opened IKS Mart.
This decision was influenced by an agency that opened an opportunity for entrepreneurs interested in supplying to the newly established IKS Mart. However, SME2 likely shifted from solely providing the raw product to offering a more comprehensive dining experience. This transition marked a significant turning point that led to notable growth for the business.

Theme 3: Environment
ii) Marketing
Opportunity from word-of-mouth free marketing during the startup. SME1 mentions leveraging their connections by requesting friends to help promote their products. The approach involves encouraging friends to inquire among their families or contacts about potential buyers and then passing along SME1’s contact information to those interested. SME2 describes their early marketing efforts involving reaching out to colleagues to spread awareness about their product. This strategy likely relied on spreading the word among colleagues, generating requests and inquiries, and expanding the business’s visibility and demand.

<table>
<thead>
<tr>
<th>Table 6. Marketing</th>
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<tbody>
<tr>
<td>“...my other friend at that time please promote as well. If they have a family, ask where someone wants to buy this, then give my number...” (SME1)</td>
</tr>
<tr>
<td>“...So first marketing through colleagues. So everyone knows through requests even more so. I enjoy it...” (SME2)</td>
</tr>
</tbody>
</table>

iii) High cost of living
SME2’s statements highlight government workers’ challenges in meeting societal expectations regarding family size and financial stability. This prompts them to seek additional income sources or opportunities specific to their circumstances to alleviate financial strain and meet societal standards. This is why they get the opportunity to become SME tourism in food heritage.

Theme 4: Opportunities in the Food heritage industry
SME1 emphasizes the vast potential within the heritage food industry, noting that the opportunities are substantial. Moreover, they distinguish traditional food from viral or trendy food by asserting that traditional food consistently finds buyers, indicating a more stable market demand. Furthermore, SME2 echoes the sentiment by illustrating their choice of focusing on keropok lekor. They differentiate between trending foods that might have a short-lived demand and traditional food items like keropok lekor that have a consistent market.

<table>
<thead>
<tr>
<th>Table 7. Opportunities</th>
</tr>
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<tbody>
<tr>
<td>“...this industry is very big, the opportunities that are available are very big, it’s up to the entrepreneur to seize the opportunity...” if it’s viral food, it’s temporary if it’s traditional food, there’s always a buyer, there’s always someone looking...” (SME1)</td>
</tr>
<tr>
<td>“I chose these keropok lekor, right? If it’s just a trending food, it’s just like a business to customer, so it’s a little difficult. I find it difficult but if it’s business to business. Business to business to customer so this thing is long. So we open up opportunities for other businesses as well...” (SME2)</td>
</tr>
</tbody>
</table>

4.5 Challenges faced by tourism SME entrepreneurs in the heritage food industry
Theme 1: External Competition
i) Sabotage
SME1 recounts an incident where an entrepreneur at an event (MAHA) expressed dissatisfaction with their food products. SME1 also perceives these criticisms as sabotage, attributing the negative feedback to the entrepreneur’s deliberate attempt to undermine their products or reputation.

<table>
<thead>
<tr>
<th>Table 8. Sabotage</th>
</tr>
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<tbody>
<tr>
<td>“That just happened MAHA just recently he said our food is not good, after that, at that time, it was already an agreement that I put this place up for sale by an entrepreneur, he was not satisfied, he wondered why the agency came to my place, he gave me back have Kelupis at that time. He just threw it away, he said it was not a good product...” (SME1)</td>
</tr>
</tbody>
</table>

ii) Counterfeit package
SME1 expresses concern about others imitating their packaging for kelupis. SME1 mentions that they have their packaging for their product when they manufacture it. This situation causes confusion among consumers as they are unsure about the product’s authenticity. When multiple similar packaging designs are present in the market, customers may need help between the original product and the imitations challenging.

iii) Quality
SME2 compares different entrepreneurs or businesses, suggesting that some might use more ingredients (flour) but offer lower prices. They mention that despite this, there might be an issue with the quality or “itchiness” of the product. The SME2 preference is for providing a high-quality product without such issues, but the person can get a guarantee if the product is better or if there is any problem.

iv) Price
The next challenge is price competition. SME1 said some entrepreneurs ask the supermarket manager to replace their product because it is cheaper. However, SME2 also face price competition with entrepreneurs in other districts. The customer keeps comparing it to the other product. However, SME2 still focuses on maintaining the food’s quality and will not cut costs.

Table 9. Price

......“price competition if it's like the example I supply, go to Bataras. If it's like an entrepreneur who is not satisfied, even Bataras, he goes in like that, right, he goes to complain, that's the same as the boss, take it from me, don't take it from him. So if the boss believes in their words, he will stop (SME1)..."Now it's too crowded, after that, other districts also offer cheap prices, even though people say why I'm still there, while the others are half the price in the district...."  
(SME2)

Theme 2: Internal Challenges
i) Labor shortage
SME 1 said that there is a lack of workforce or labour force due to the workers themselves. Even when they commit to producing a product, they might have other orders or commitments, leading to scarce available workers for a particular task or order. The second part emphasizes the challenges faced by the workers, mentioning reasons such as illness, personal loans affecting their work, and a general lack of readiness or preparedness to fulfill the expected workload.

ii) Expand the market
The Ministry of Tourism, Arts, and Culture (MOTAC) suggested that SME1 send a particular product to tourist areas. For instance, Semporna, known for its tourist attractions, was proposed as a potential location to introduce or sell this product due to its high tourist footfall. However, SME1 expresses hesitancy or reluctance when sending the product to certain shops or areas, possibly because of concerns about logistics or risks associated with transportation. The mention of not sending the product frozen might indicate a requirement for a specific storage or transportation condition that the SME1 could not meet. This hesitation stems from a fear of potential risks or damages during transit.

iii) Raw material
SME 2 acknowledges a discrepancy between their perception of perfection and customers’ reality. Despite their belief in the product's quality, they admit that some fish fillings might have issues like itchiness or a bad smell, which were not initially detectable on a large scale.

iv) Difficulty introducing the product to buyers
SME1 highlights a challenge faced by the speaker in introducing a specific product to customers. The product is a raw, frozen item that requires cooking before consumption. This lack of knowledge about cooking methods becomes a barrier for customers unfamiliar with raw or frozen products that require cooking before consumption.

v) Lack of cost
SME1 challenges related to extending the shelf life of their product and the associated costs. SME1 mentioned having requests from various supermarkets with multiple branches but encountering issues with product delivery due to the requirement for cold storage.

5.0 Conclusion & Recommendations
There are recommended strategies for SME tourism. First is strengthening competitive strategies by combating counterfeit issues, ensuring quality assurance, and refining pricing strategies. Second is diverse marketing approaches for internal challenges. This includes flexibility in marketing channels (online, offline, social media, etc.), campaign themes, target audience segments, and messaging. Thirdly, collaboration and Network Expansion include inter-business and agency partnerships, such as identifying potential partners, building relationships, and launching joint marketing initiatives. Lastly, customer education and engagement strategies include product education and customer feedback loops.

In a nutshell, the pilot study was done to get the first experience with the findings of the theme and code in order to strengthen the confidence for a fundamental research thesis. This pilot study got a few recommendations for future research, such as updating the interview protocol. By conducting thorough research into opportunities and challenges, businesses can create more robust strategies, foster innovation, mitigate risks, and position themselves advantageously in the market. It forms the foundation for informed decision-making and long-term success.
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