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DETERMINING COST CONTROL TECHNIQUE AND OVERCOMING CHALLENGES IN DAILY OPERATIONS: PERSPECTIVES FROM THE FOODSERVICE MANAGERS

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Abstract:

As more new players enter the market, the Malaysian food and beverage industry is anticipated to have a bright future. Hence, it is becoming increasingly important to comprehend how food and beverage establishments make profits through cost control measures, an important aspect that is frequently overlooked academically. Limited studies have been conducted towards understanding cost control matters, especially in the Malaysian setting. This paper highlights the critical cost control techniques and ways to overcome issues in food service operations. An exploratory approach via qualitative study is deemed feasible to investigate cost control measures being practiced in their daily operations. Cost control techniques applied in the Malaysian food and beverage industry needs to be determined. Further, how managers overcome challenges in manning their food and beverage outlets needs exploration. Therefore, in answering the questions, semi-structured interview protocols were conducted on 25 foodservice outlet managers around the northern part of Malaysia. The findings suggested that most of the managers interviewed understand cost control techniques needed to operate outlets based on their routine experience of running their operations. In terms of overcoming the challenges, these managers depicted several solutions which reflected the survival of their business. Thus, some recommendations can be suggested to improve their daily operations to cultivate the correct application of cost control measures in food and beverage outlet operations.

Keywords:

Foodservice Outlet, Cost Control Technique, Control Measures, Control Issues

Introduction

Customers today are becoming more receptive towards new developments produced by the food and beverage industry. Every day, new players enter the market, indicating adaptable trends that customers may consider. It has become more difficult to attract and keep customers in food and beverage service establishments as a result of this increased level of competition. Customers are more picky and more likely to compare prices in their search for better value. In turn, food service establishments ought to take advantage of this opportunity to provide customers with high-quality food, beverage, and services in order to sustain their business and maximize profits. Cost is a central element of business which influences business survival or failure, growth or recession, transition, development, prosperity, sustainable or economic disaster (Abdullah, Murad & Hasan, 2015). Keiser, DeMicco, Cobanoglu and Grimes (2008) defines control as “helping to ensure performance conforming to plans, objectives and goals” (p. 38).

According to Jagels (2007), the two primary methods by which businesses achieve profitability are either maximizing sales or reducing expenses. Food cost and control, according to Riley (2005), appear to be simple in theory but are difficult in practice. Keiser, DeMicco, Cobanoglu and Grimes (2008) define control as “helping to ensure performance conforming to plans, objectives and goals” (p. 38). Understanding how food and beverage establishments make money through cost-control measures has become increasingly important as the food and beverage industry faces increasing competition. Most food service restaurants are relatively small, and in many cases the management is relatively unsophisticated, which contributes to the insufficient controlling mechanism being exercised (Keiser et al., 2008). Although this aspect is often overlooked academically, it is critical to understanding how businesses make money. Nevertheless, understanding cost control issues, particularly in Malaysian food and beverage establishments, has received little attention.

The purpose of this paper is to determine whether food and beverage establishments in Malaysia use cost control measures on a daily basis. Specifically, concerns regarding cost control measures such as what control techniques have been implemented and how food service outlets overcome food service challenges are deemed significant and require additional research. It is difficult to determine whether these establishments employ control measures in their day-to-day operations based on current available information and data. Among the advantages of imposing control measures will undoubtedly be lower labour turnover and more effective and efficient operation systems, which ultimately will lead to financial success in the long run (Ninemeier, 2004). Thomas (2005) added that common basic control procedures employed by food service managers used to operate profitably is by focusing on establishing control over costs and sales in food service operations. Thus, in order to maintain and maximize profits in the long run, it is crucial to obtain comprehensive information on the control measures they use to improve their operations.

Hence, this study will focus on the following objectives:

- i. To determine the control technique that food service outlets apply in their daily Operations.
- ii. To investigate the ways food service outlets overcome challenges in their daily operations.

Literature Review

Control is characterized as a cycle to coordinate, direct and limit the activities of individuals to accomplish the laid out objectives of a business (Mohsin, 2006). Thus, the process of attempting to control costs and prevent excessive costs in the food and beverage industry is known as food and beverage cost control. The goal is to keep costs within acceptable limits, accurately account for revenues, and generate profits. Every step in the chain of purchasing, receiving, storing, preparing, and distributing food and beverages for sale, as well as scheduling the personnel involved, is a continuous process (Dopson, Hayes, & Miller, 2008). In order to maintain acceptable costs, account for revenues, and make a profit, food service managers use specific strategies, techniques and procedures to direct, control, and restrain employees' actions, both directly and indirectly (Ahmed, 2005; Arduser, 2003).

Understanding how businesses make money is becoming increasingly important due to the fierce competition in the food and beverage industry. Due to the changing of consumer preferences and demands as a result of changes in demographic, technological, and other factors, food service operators need to remain competitive and retain market sustainability (Abdullah, Abdulrahman and Hamali, 2011). For the purpose of producing goods for sale, raw materials are purchased, received, stored, and distributed in the food and beverage industry. As a result, control should be used at every stage of the process to avoid problems that will cause costs to increase. Cost is defined by Dittmer & Keefe (2006) as the price a foodservice establishment pays for goods or services when those goods or services are used. In addition, they mentioned that exercise of governing power over events and circumstances in order to achieve or present an outcome is control.

Control can be implemented in a number of different ways by food and beverage establishments. Which methods should be used in a given situation are determined by the kind of product or service that needs to be controlled and the difficulty of controlling it. According to DeFranco and Noriega (2000), control techniques include management setting examples, observing and correcting employee actions, requiring records and reports, disciplining employees, and preparing and adhering to budgets. Standard-setting, procedure-setting, employee training on how to properly implement control measures, and so forth are additional control strategies.

Further, Dittmer and Keefe (2008) stated that the control process consists of four steps, following DeFranco and Noriega's suggestion. Establishing operational standards and procedures, training all employees to adhere to those standards and procedures, keeping an eye on performance and comparing it to established standards, and finally taking the necessary steps to rectify deviations from standards.

Research Methodology

This study is an exploratory study in nature with the intention to investigate cost control techniques that food and beverage outlets apply in their daily operations. In addition, this study

intends to investigate the ways food service outlets overcome challenges in their daily operations. There is little research on this topic due to control measures being a relatively understudied field. Due to lack of information, an exploratory study was considered. Because it is necessary to collect a lot of data in order to answer the research questions, this study will take a qualitative approach. Personnel from selected food and beverage establishments were interviewed using a semi-structured interview format.

The first round of questionnaires were distributed to a sample of supervisors at food and beverage establishments as part of a pre-test phase to ensure that the meaning and wordings used in the questionnaire were understandable and made sense in answering the research questions. The modified pre-testing stage served as the basis for the development of a refined questionnaire. The study's population consisted of food and beverage establishments in Malaysia's northern region. The northern region was chosen due to limitation of time and funding, in addition to having a small scale research base. The structured interviews will serve as the basis for content analysis, which will be carried out in accordance with the data analysis method as this study adopts a qualitative approach.

Findings of The Study

Participants' Background

In order to obtain the sample of participants, initial contact was being made by two research assistants to identify interested participants to take part in the study. These participants were selected based on a few zones in the Kedah, Penang and Perlis area. A total of 30 managers or owners were approached, however only 25 managers or owners agreed to be interviewed. The interviews took place during May until December 2021 and each interview lasted between thirty to fifty minutes.

Two franchisees, three chain restaurants, and 20 sole proprietary premises were profiled as food and beverage establishments. In a shift or non-shift operation, the total number of employees at each property ranged from seven to twenty-two people. It was observed that food service establishments with more than ten employees operate on shifts, whereas those with fewer than ten employees operate without shifts.

Two main semi-structured questions were asked to conform to qualitative research protocol to answer the research objectives. Each question directly reflects the research objectives accordingly. Below are the descriptions of the answers given to answer the research objectives.

Objective 1: To Determine The Control Technique That Food Service Outlets Apply In Their Daily Operations

The first research objective is to determine the control technique that food service outlets apply in their daily operations. The question posed was "In your opinion, what is the control technique that is applied in your daily operations?". In general, it was found that the majority of food and beverage store managers agreed that there should be an appropriate guide for all food service operations to develop structured cost control practices. Currently, most outlets appear to be following their own guidelines developed based on many years of experience in managing their operations.

The majority of them joined the food industry out of passion and interest rather than a formal education in food service. Having said that, the majority also realized that having a proper cost control policy will help their respective businesses manage and operate more efficiently. The majority of them are aware what "cost control" means and mentioned they have cost control procedures in place for their day-to-day operations, such as applying FIFO techniques, and appointing a specific individual to oversee the storage area.

However, approximately forty percent of participants do not have a clear understanding of cost control practices and procedures; instead, they only have a general, logical way of using cost control measures in business operations. In the meantime, franchise outlets have their own cost-control procedures that are set by the franchisor and include regulations that these franchisees must adhere to.

Six themes emerged based on the in-depth interviews conducted on the participants, to address the control techniques being investigated. These are themed as having a standard guideline and standard operating procedure in their daily operation, exercising proper and regular training to all staffs from time to time, and having the management oversee and take part in setting examples to the staffs in general. Other agreement by the participants include having management to observe and correct employee's actions from time to time, and having the management of the establishment monitoring daily records and reports attained. Lastly, the participants also mentioned that it is critical to prepare a proper budget beforehand to ease in proper budgeting and planning in the short, medium and long run of the business.

Examples of each of the themes are described below together with supporting excerpts:

Having A Standard Guideline And Standard Operating Procedure In Their Daily Operation

It was found that the majority of the food and beverage outlet managers agreed that in order to develop a structured cost control practice, there should be a proper guideline in all food service operations. At the time, it seemed like most of them followed their own guidelines which were developed based on their extensive experience in operating their businesses.

"Yes, it is very important to set standards and proper procedures according to MESTI (Makanan Selamat Tanggungjawab Industri)... to ensure food safety and hygiene and secure quality food" (Participant 6)

"Of course we follow FIFO procedures in our daily operations for food storage to ensure quality food only served to our customers" (Participants 18)

Exercising Proper And Regular Training To All Staffs From Time To Time

It was seen that franchise outlets have their own cost-control procedures that are set by the franchisor and include regulations that these franchisees must adhere to. In lieu with this, it was mentioned that regular training is being conducted from time to time to ensure the proper procedures are followed by the staff.

"Usage of procedures to train staffs from time to time..so that all staff have the same knowledge on running the operations" (Participant 1)

“Training was given to employee when first joining the premises..and they are evaluated from time to time” (Participant 22)

Having The Management To Oversee And Take Part In Setting Examples To The Staffs.

Majority of the participants also mentioned that most of the time, the management themselves foresee the execution of daily operations, especially when it comes to introducing new staff. Most of the time, the supervisor will take part in daily operation and guide the staff on the correct way of handling daily operations.

“Supervisor on duty will give proper instructions on how to carry out work for the day by having daily opening briefing” (Participant 17)

“The supervisor always help give proper knowledge and info on the types of coffee and how to prepare different types of beverage menus” (Participant 23)

Having Management To Observe And Correct Employee Actions From Time To Time

The participants also agreed that they are always helping the staff in correcting service delivery failures when running operations. Some even mentioned having CCTVs to monitor their staff, especially during peak hours and will use the footage for staff development and improvement.

“We use live telecast to monitor staff’s performance, therefore if the staff made a mistake, we can rectify them quickly” (Participant 15)

Management oversees and monitors all employees movement via CCTVs. So that all could complete their task well. Recordings can also aid in training staffs in the future” (Participant 23)

Having The Management Of The Establishment Monitoring Daily Records And Reports To Discipline The Employees (As And When It Is Required)

Participants also are in agreement that it is essential for management staff to conduct daily report monitoring and with this strategy, unsuitable and improper staff conduct can be rectified and improved. Record keeping of raw materials is also very important as raw materials are mostly perishable items and prone towards wastage.

“Food and beverage inventory stock keeping are done frequently, sometimes once in a fortnight, depending on items” (Participant 21)

“Record keeping in this café is done regularly to see goods available. It bears many advantages especially minimizing wastage and eventually cut costs” (Participant 25)

Prepare A Proper Budget Beforehand To Ease In Proper Budgeting And Planning

Food and beverage operation is a challenging and risky business, despite its attractive monetary return. Therefore, in order to maintain a good and healthy balance check in the costing of daily operations, it is essential to have a proper budgeting plan in addition to proper operation planning. Due to vulnerable raw materials prone towards wastage issues, budgeting, proper planning and necessary purchasing is of critical importance.

“Budget need to be prepared for the next day operation and need to follow closely. Having a proper worksheet will aid in a more standardized budgeting and planning” (Participant 10)

“Budgeting is very crucial. A coordinator will prepare the budget for the week, as we are a franchise outlet” (Participant 19)

Objective Two: To Investigate The Ways Food Service Outlets Overcome Challenges In Their Daily Operations

The second objective is to investigate the ways food service outlets overcome challenges in their daily operations. According to Zainol, Ahmad and Ideris (2017), the daily operation challenges that food service operations face include unstable price of raw materials, seasonality in terms of demand and supply of raw materials, and staff issues regarding morale and discipline. Prior to that, having lack of knowledge on internal control procedures and benefits are also some challenges that food service operators face (Mohsin, 2006). Another issue in relation to food service operation control in terms of internal threat is revenue security caused by employees' theft. On the other hand, external threats are caused by some guests or suppliers who try to cheat the food service operators (Zainol, Ahmad & Ideris, 2017).

In answering objective two, the question posed was “Based on your experience, how does your outlet overcome daily challenges in its daily operations?”. Based on the feedback received, four themes emerged. These are themed as having proper planning, practicing best practice in standard operating procedures (SOP), reducing wastage and exercising proper training to the staffs. The explanation and examples of excerpts are laid as follows.

Having Proper Planning

Seventy five percent of the participants agreed that in order to overcome challenges in daily operations, food service outlets need to have proper planning and arrangement regarding their daily operations. As the operations are set according to specified time frames, each staff will know the schedule and standard of management that is needed at all times. Having proper planning will aid in a smooth running operation and problems regarding insufficient raw materials, wastage etc can be reduced significantly. Examples include:

“Planning is made daily basis on the budget, in terms of what to buy and not buy... we can source a variety of suppliers in advance” (Participant 7)

”Sourcing from reliable and quality suppliers will keep cost to minimum in the long run with proper planning” (Participant 15)

Practicing Best Practice In Standard Operating Procedures (SOP)

Most of the participants agreed that practicing and applying best practices in line with SOPs will aid their daily operations to overcome the problems they encounter. SOPs are either set by the franchisor (for franchise and chain establishments), or will be developed according to the micro-operations for sole proprietorships. SOPs include setting standard recipes, serving and table setting, preparation of beverages, etc. Examples include:

“All food outlet establishments should apply standard recipes in food preparation” (Participant 10)

“Having SOP will aid in buying in bulk at the necessary quantity and quality...this will maximize profit” (Participant 21)

Reducing Wastage

Nearly forty percent of participants also agreed that a way to overcome the challenges in daily operation is by reducing daily operations' wastage. Wastage can be in various forms. Having excessive and unwanted raw materials, which are either used or unused will result in higher cost accumulation. Example includes:

“Use a standard scoop in measuring portion sizes will reduce wastage and exercise proper SOPs” (Participant 19)

“It is critical to store raw materials according to their shelf life, and those chilled items to be stored at the correct temperatures to avoid being rotten quickly” (Participant 21)

Exercising Proper Training To The Staffs

Staffs need proper training when they first join an establishment. This is stated by half of the managers/owners so that staff are aware that everything is accounted for when operating a food service outlet. Training also need to be done regularly or at least periodically to enhance and maintain quality standards of staff performance. Examples include:

“There need to be more stringent control in storage areas...and staff need to be trained in this” (Participant 18)

“Training on reducing wastage is very critical as raw materials are not cheap nowadays” (Participant 20)

Discussion

To answer the research objectives, the data collection has produced some good findings. Six themes emerged based on the in-depth interviews conducted to address the control techniques being investigated, in answering objective one of the study. The techniques include having a standard guideline and standard operating procedure in their daily operation, exercising proper and regular training to all staffs from time to time, and having the management oversee and take part in setting examples to the staffs in general. Other agreements by the participants include having the management observe and correct employee's actions from time to time, and having the management monitor daily records and reports attained. Finally is preparing a proper budget beforehand to ease in proper budgeting, and planning is also a critical step in a control technique that should be considered. Thus, Mohsin's (2006) internal control procedures were supported by this.

Controlling costs for food and beverages is essential for a business' success. The majority of food and beverage establishments understood what it meant to "control costs" and mentioned using a variety of cost-control strategies in their day-to-day operations, according to the findings. They also talked about using their own methods and procedures for controlling costs in their businesses, even though most of them had never worked in the food service industry before.

The second objective is to investigate the ways food service outlets overcome challenges in their daily operations. Four themes emerged from the interviews conducted. These are by having proper planning, practicing best practice in standard operating procedures (SOP), reducing wastage and exercising proper training to the staffs. For proper planning, outlets with a parent company have standard operating procedures that adhere to requirements set by headquarters. Additionally, the main office determines the suppliers. The majority of retailers mentioned using FIFO and LIFO procedures in their operations. This was in agreement with Mohsin's (2006) and Dopson et al.'s (2008) procedures for internal control. Regarding cash control training, the majority stated that the owner or manager always closes the business and deposits the sales proceeds the following morning. In some stores, a POS system was used to control things. In line with current internal control measures, reports also indicate that some employees have been trained to handle cash and credit cards. Mohsin's (2006) position was supported by all of these actions.

Following this, it is also imperative to have management observe and correct employee actions from time to time, and having the management monitor daily records and reports attained. Lastly, it is also crucial for the management of the food service outlet to discipline the employees (if required). Having a standard guideline and standard operating procedure in their daily operation, exercising proper and regular training to all staffs from time to time, and having the management to oversee and take part in setting examples to the staffs in general are all good improvements for proper operation.

Implications of the Study

In order to develop and improve the proper application of cost control for effective management of food service operations, this study proposes to investigate the present practises of control techniques and procedures that food service entrepreneurs employ. The difficulties and hazards that these foodservice establishments face will also be helpful in developing a structured manual of control best practises. The results will also help food service entrepreneurs plan and carry out initiatives and action plans for the expansion of their businesses in terms of business progression, training, and business coaching to support the efficient management of food service outlets and to equip them for long-term business sustainability.

Limitation of the Study and Future Research Direction

This study applied a qualitative approach in answering its research objectives. The small scale of the study due to the limitations explained above has produced somewhat meaningful results in the confinement of the context under study. Other research suggested looking into bigger scopes and perhaps across different business segmentations under the food and beverage umbrella to determine a more rigorous and meaningful, in depth data tailored to the different segments.

Conclusion

This chapter has highlighted the findings of the study, based on content analyses done on interviews conducted. The interviews collected had highlighted the proper technique in food service cost control to achieve better performance and enhance sustainability. It was discovered that people are aware of cost control measures, but such measures should be enhanced further. Many control procedures' implementation is still unbalanced and requires adjustment. The results of this study shows that food and beverage businesses must improve their use of cost control measures. These business owners in the food and beverage industry require cost control

training and courses to better understand why control measures are so important for long-term profit maximization to achieve better performance and enhance sustainability.

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