The future of restaurant analysis: A customer-driven approach for an experience economy

Ben Nemeschansky, Auckland University of Technology, bnemesch@ovi.com
Tania von der Heidt, Southern Cross University, Australia, Tania.vonderheidt@scu.edu.au

Abstract

Current restaurant profitability models are organisation-centric and focus on product profitability or customer profitability. Because these models overlook the customer perspective in the restaurant evaluation process, they are not sophisticated enough to meet the challenges of today's experience economy. Customer-defined value attributes can be identified based on customers' willingness-to-pay and categorised based on restaurant experience values. In this paper a customer driven restaurant analysis (CDRA) model is advanced where the customer experience and the resulting perceived customer value and WTP are the key drivers. The key to allocating the value added costs is alignment with the production of customer valued experiences. This new approach can assist the restaurant industry in increasing customer satisfaction and loyalty, while at the same time improving the profitability of the operation. The paper outlines the proposed constructive research approach to develop and test the model.

Keywords: restaurant services, experience, customer value, cost management

Track: Services (or Retailing & sales)

The future of restaurant analysis: A customer-driven approach for an experience economy

Abstract
Current restaurant profitability models are organisation-centric and focus on product profitability or customer profitability. Because these models overlook the customer perspective in the restaurant evaluation process, they are not sophisticated enough to meet the challenges of today's experience economy. Customer-defined value attributes can be identified based on customers' willingness-to-pay and categorised based on restaurant experience values. In this paper a customer driven restaurant analysis (CDRA) model is advanced where the customer experience and the resulting perceived customer value and WTP are the key drivers. The key to allocating the value added costs is alignment with the production of customer valued experiences. This new approach can assist the restaurant industry in increasing customer satisfaction and loyalty, while at the same time improving the profitability of the operation. The paper outlines the proposed constructive research approach to develop and test the model.

1.0 The problem with current restaurant performance analysis

Today's consumers seek unique experiences that are about more than just consuming products and services. This is a consequence of current high levels of product and service quality often no longer being enough to differentiate choices for consumers. For instance, eating out at a restaurant is about more than just the food and beverage offering - it is about the total experience. Other aspects, such as service quality, waiting time, atmosphere, decor, comfort and location are significant variables in creating a memorable experience (Andersson & Mossberg, 2004; Marshall & Bell, 2003;Mischitelli, 2000; Payne & Payne, 1993). Therefore, restaurants around the world are challenged to find an appropriate balance between serving customers' diverse needs and wants, determining an optimal menu choice and developing a pricing strategy for the operation to achieve adequate profitability levels (Raab, Mayer, & Shoemaker, 2009).

While the restaurant industry is an important part of the experience economy, most restaurant managers are still calculating and developing budgets as if they were producing products, not experiences (Carlbäck 2011). This is, in part, a reflection of the nature of the industry – comprised mostly of small and medium-sized enterprises (SMEs) with time and financial constraints, unskilled labour and a preference for simple and conservative accounting tools. It is also due to the absence of effective management accounting tools to capture the range of variables from a customer-driven perspective. Existing accounting systems are not designed to ensure that the customer-perceived value of the dining experience matches the price charged, and provide little information and support to operators trying to create a memorable meal experience for their customers.

By understanding its costs relative to the prices it can charge, a company can gain control over its profit potential (McNair et al. 2001). Management accounting provide approaches to managing resources, in particular costs, time and quality, which are not only key cost drivers, but important sources of customer value (Langfield, Thorne, Hilton 2003). This paper highlights the management accounting tools currently used in the restaurant industry. It then considers a new tool customer-driven restaurant performance analysis model suited to the experience economy, which may improve resource efficiency and performance of restaurants.

2.0 Current management accounting tools for restaurants

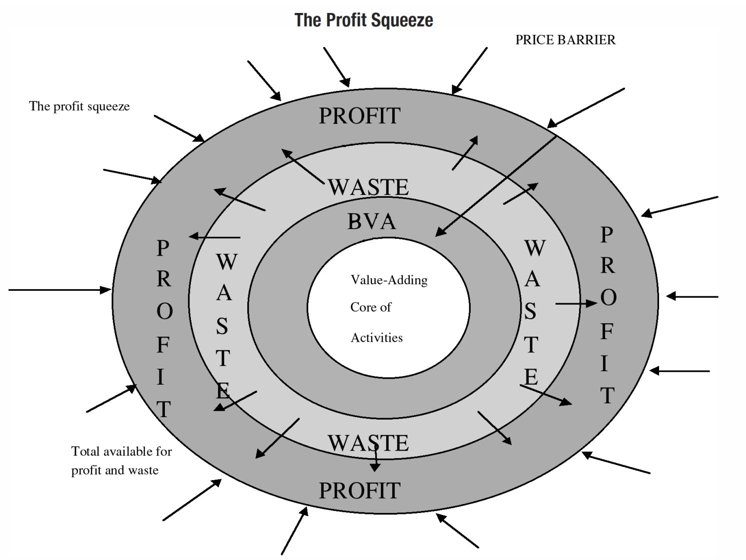
A number of separate management accounting approaches have evolved to manage costs. These can be broadly categorised on a spectrum from cost- to customer-focused (Carlbäck 2011). Firstly, *cost-focused* approaches with internally-driven perspectives of value include the Universal System of Accounts for Restaurants (USAR) and Activity Based Costing (ABC). Current USAR systems are based on production of a product or service, not an experience. As such they are not sophisticated enough to allow for resource management and other more advanced management techniques (Andersson & Carlbäck, 2009; Andersson & Mossberg, 2004; Potter & Schmidgall, 1999; Shields et al., 2009). ABS provides information about activities, cost drivers and performance, as well as about the costs of cost objects. However, for managers who want to manage the performance of a range of restaurant experiences, these methods provide no assistance.

Secondly, *cost-focused with some customer-focus* approaches include Strategic Cost Management (SCM), Target Costing (TC), Activity Based Management (ABM), Customer Accounting (CA) and Balanced Scorecard. CA facilitates the analysis of customer profitability, as well as the valuation of customer groups (Guilding & McManus 2008). While each of these approaches offers a certain degree of customer focus, there is no connection between internal cost structures and externally, customer-defined value (Carlbäck 2011; McNair et al. 2001; Stratton, Desroches, Lawson & Hatch 2009). Overall, these cost management approaches ignore customer perceptions of value, especially outside those attributes currently embedded in the company's product decisions. Additionally, these approaches overlook the "wide variety of weights that any given customer might place on the feature of any given product or service bundle" (McNair et al. 2001).

The most *customer-focused* management accounting approaches are the Value Creation Management (VCM) and Experience Accounting (EA). They emerged from the 1980's and 90's, when many businesses came under increased pressure from competition and needed to find ways of reducing costs, while improving the quality of their offering and their responsiveness to customer needs (McNair, 2007). For a business to succeed and create an effective competitive strategy it is important that management understands customer defined value. The price that the customer is willing to pay for the product/service represents a proxy for the economic value derived by the customer. A business that ignores this link will possibly experience a profit disadvantage (Carlbäck, 2011; McNair & Carr, 1991; McNair et al., 2001a, 2001b; Oh, 2000).

Value creation is a market-defined, externally evaluated concept (Cleland & Bruno, 1996; Wayland & Cole, 1997), more suited to strategic decision making than activity-based, internally focused approaches. It is a widely held belief of modern business that satisfying the customer is crucial to the long term success of enterprise (McNair et al., 2001a, 2001b; Roslender & Hart, 2010). The VCM advanced by McNair et al. (2001a) aims to focus management understanding on the relationship between the costs that the organisation incurs and the value of these efforts, as seen from the customers' perspective. It divides costs into value-added, business value-added and waste, and the market price is the boundary of what a business can charge (see Figure 1). The key to increasing profits is to have an in-depth understanding of the target market and their value requirements. The VCM facilitates the calculation of value multipliers, a central concept for improving customer value and business profit. When an operation invests to improve the performance of the value-added core activities, the profit potential will increase as guests are willing to pay for these value-adding core activities (McNair, 2007; McNair et al., 2001a, 2001b).

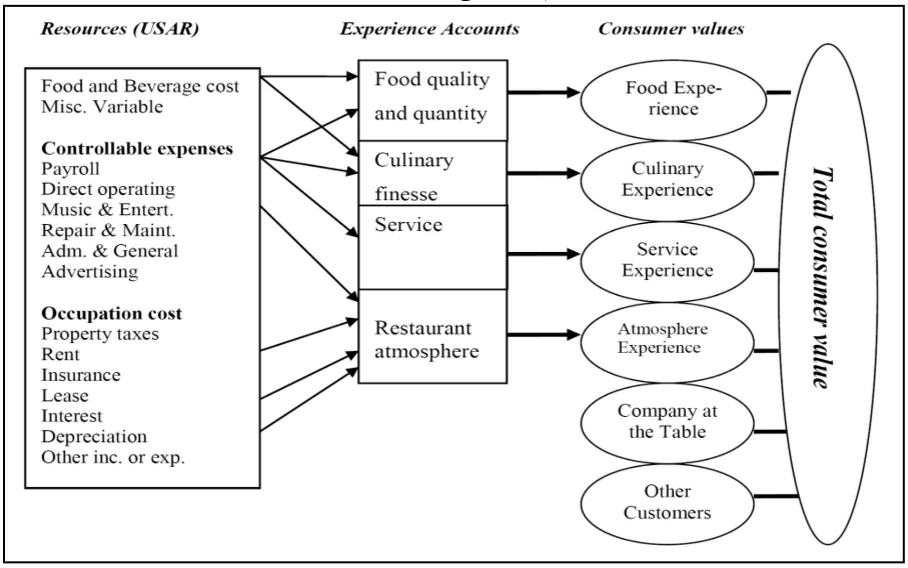
Figure 1. The Value Creation Model (McNeil et al. 2001)



The other customer-focused approach, EA, draws on the notion of 'experience economy' – coined by Pine and Gilmore (1998) to demonstrate how businesses could orchestrate memorable events so that the memory itself becomes the product. Every effort a restaurateur makes, or allocates resources to, should add to the guest's perception of value and satisfaction, and ultimately to the whole experience (Carlbäck, 2011; Hemmington, 2007). As a result of this new requirement for distinctive and unforgettable experiences, operators need to set apart their product and service offering by developing a distinct value-added provision that appeals to their target market (Oh, Fiore, & Jeoung, 2007; Pine, 2011).

EA is based on the premise that the efficiency of the production of restaurant experience is assessed by a comparison between the cost of producing the experience and the customer value of that experience. The accounting information on resources (costs) used for experience accounting is based on USAR reallocated to four 'experience accounts' - namely Basic Food and Beverage, Culinary Finesse, Service, and Restaurant Atmosphere (Andersson & Mossberg, 2004). These experience accounts resemble the three main factors in the 'service encounter' model - tangible factors, service employee factors and consumer factors (Baker, 1987; Bitner, 1992). As shown in Figure 2, the experience accounts correspond to six customer values (Food, culinary, service, atmosphere, company at the table and other customers). The experience accounts and customer values are also consistent with the 'five aspect meal model' (FAMM) (Gustavsson, Ostrom, Johansson & Mossberg 2006) based on *room* (actual place), the *meeting* (with other guests and staff), the *product* (food and drinks), the *atmospher*e (environment and sentiment). The fifth FAMM element is *management control systems* (pricing and efficiency, etc.), which equates to the management accounting system used. A monetary value is placed on the experiences using the Contingent Valuation Method (Mitchell & Carson, 1990). Thus data in the complete system (Figure 2) is compatible. According to Andersson & Carlbäck (2009), the reallocation of expenses to experience accounts is based on how resources are used and the type of experience a resource ultimately supports. This allows management to see where all costs have been distributed in relation to the customer experiences they produce, i.e. the monetary value of the production of each guest offering.

Figure 2. Experience Accounting framework for assessing efficiency of experience production by a comparison of customer value versus accounting cost (Andersson and Carlbäck, 2009)



While these two customer-oriented cost management approaches (VCM and EA) have been conceptualised, there is limited evidence of empirical testing in an industry context. The only published effort to do so is in Carlbäck's two studies. In his first empirical study together with Andersson (2009), the yearly income statements from a traditional accounting scheme (USAR) of three restaurants were analysed and reallocated *ex post* to four experience accounts. A survey of the restaurants' respective customers (n = 30) was undertaken to identify the customers' willingness to pay (WTP). The resulted in monetary values for every guest's WTP for each part of an ideal and actual service experience. For example, the ideal value of each restaurant experience aspect averaged across the three restaurants was 25% for basic food, 16% for culinary finesse, 22% for atmosphere, 10% for service, 16% for other guests and 10% for company at the table. By analysing the costs of creating an experience and comparing it with the guests' WTP for a particular part of the experience, gaps in resource allocation were identified. For instance, two of the three restaurants were rated far below the ideal in atmosphere, and the clients indicated they were willing to pay considerably more for the atmosphere part of the experience.

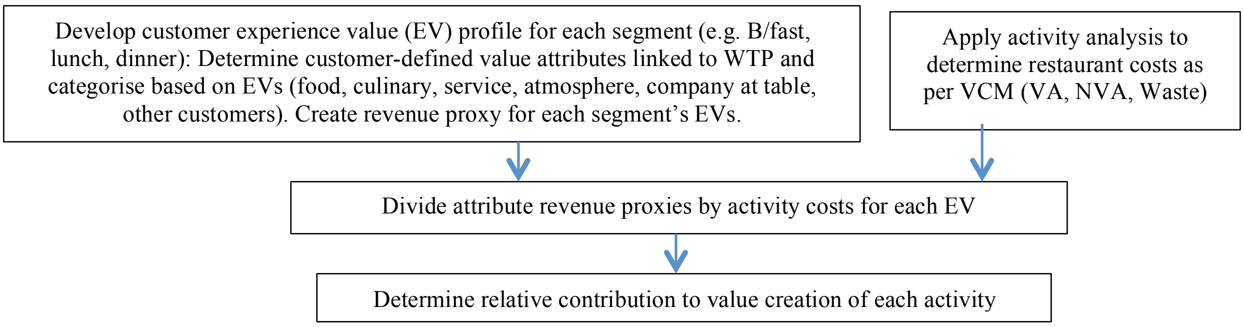
In the second empirical study Carlbäck (2010) interviewed the three restaurants' respective managers (n=40) to gain feedback on the EA tool used. He found that managers lacked familiarity with EA, but were keen to learn more about this approach and wanted it developed more. The study also indicated that EA would allow the restaurant manager/owner to allocate resources better and to serve as a performance management tool at any point in time.

Based on his preliminary research, Carlbäck (2011) concluded that the EA tool, presents new ways for managers to align the performance of the business with customers' needs. "Any restaurant should then be able to draw resources from areas where they create very little value for the customers or guests to other areas where they create better value – something the guests are willing to pay for" (p. 21). He acknowledged the "trade-off between possible enhanced efficiency and additional time spent on allocating costs and conduct (of) guest surveys" (p. 21). For further research, Carlbäck recommended that the EA approach be fully tested in one or several restaurants. He also suggested a possible integration with the VMC to "add both theoretical weight and potential practical advantages for both ideas" (p. 24).

3.0 A constructive research approach for customer-driven restaurant analysis (CDRA)

The remainder of this paper outlines a proposal to address the lack of holistic and empirically-tested customer-driven restaurant performance management approaches identified in the literature. It follows Carlbäck's recommendation to incorporate VCM to determine customer-perceived experience values *a priori* and to test the model in a real restaurant environment. The primary research question guiding the study is: ***Is CDRA practical in real operating contexts?*** The aim is to draw on VCM, EA and ABC to develop a framework for CDRA which (1) reflects more accurately experience-related restaurant costs and (2) discloses inefficient use of resources and may facilitate a reduction in non-value added activities and waste. Figure 3 below summarises the key phases of the CDRA model development.

Figure 3. CDRA model development



As the objectives of the proposed study are typical to applied science research, the three-phase, seven-step Constructive Research Approach (CRA) developed by Kasanen et al. (1993) and updated by Lukka (2000) and Labro & Tuomela (2003) will be followed. CRA is widely used in technical sciences and management accounting, but is virtually unknown in marketing. It is a research approach for producing 'constructions' (e.g. a new management system) to solve emerging problems in running business organisations. It is similar to action research, but tends to be more academically innovative (Labro & Tuomela 2003):

1. ***Preparatory phase:*** The practically relevant and theoretically interesting problem has been identified (*step 1*); the potential for collaboration with a range of restaurants in Auckland has been determined (*step 2*); a theoretical, ex-ante understanding of the problem has been gained from a literature review, but more work needs to be done to gain familiarity with the practical aspects of the research issue (*step 3*) – see next.
2. ***Fieldwork phase:***
   - A preliminary study of industry practice (*step 3*) will be undertaken through an online survey of all Auckland restaurants. It will investigate and quantify 4 specific areas (customer experience value attributes, menu analysis in restaurants, restaurant cost accounting systems and possible use constraints relating to menu analysis).
   - *Step 4* (to innovate and construct a theoretically grounded solution, as summarised in Figure 1) will involve 3 restaurants and will enable the gathering of qualitative insight from the research context. The aim is to (a) determine customer experience value attribute (customer surveys) and (b) perform activity analysis (management consultation and secondary data collection).
   - *Step 5* (implementing and testing the construct) will involve developing a profitability instrument and validating the managerial construct at all three participating restaurants.
3. ***Theorising phase:***

- 3 different methods will used to test *step 6* (examine the scope of the solution's, i.e. the CDMA model's, applicability): (a) a market-based validation of managerial constructs by applying the detailed weak market test proposed by Labro and Tuomela (2003); (b) external validity and transferability of the construct will be assessed using the Delphi method and (c) statistical testing will be used to compare rankings established during the research process.

Finally (*step 7*), the theoretical connections and the research contributions of the solution (the new CDMA model) will be shown.

4.0 Conclusions

In today's experience economy, restaurant success depends on the businesses' ability to create memorable restaurant experiences for their customers (Lovelock, Wirtz & Chew 2008). A restaurant experience depends on satisfaction, perceived quality and perceived value much more than what is served. Therefore, cost allocation and analysis is moving towards production of experiences rather than production of food on the plate. Marketing theory suggests that to produce valued experiences, we must listen to customers and understand what they value. However it is still commonplace for the customer voice to be lost in the myriad of functions that define today's activity-based business practices. While many attempts have been made in the literature and in practice to relate customer value, price and cost, most are cost driven and often fail to incorporate a customer perspective into their calculations.

The CDRA model advanced in this paper aims to account explicitly for the customer perspective. Customer experience value attributes and willingness-to-pay are the key drivers as a first step towards the development of the model. The ultimate objective will be to test the applicability of CDRA in real operating restaurants. This promises to improve restaurant operational management by demonstrating a mechanism that incorporates customer value into the restaurant activity analysis process and aims to assist operators in generating information for an optimal set of restaurant experiences. As a result, the CDRA model underscores that the "marriage of marketing and finance is the basis for a new language of business" (McNair et al. 2001, p. 14). Where marketing sees customer preferences, finance sees costs. Customer values attributes and their related revenue equivalents, as envisaged in the CDRA model, provide the vital linkage between marketing and finance.

References

Andersson, T. D., &Carlbäck, M. (2009). Experience accounting: an accounting system that is relevant for the production of restaurant experiences. *The Service Industries Journal*, *29*(10), 1377–1395. doi:10.1080/02642060903026270.

Andersson, T. D., & Mossberg, L. (2004). The dining experience: do restaurants satisfy customer needs? *Food Service Technology*, *4*(4), 171–177. doi:10.1111/j.1471-5740.2004.00105.x.

Baker, J. (1987). The role of the environment in marketing services. In J.A. Czepeial& J. Shananhan (Eds.), The service challenges: Integrating for competitive advantage (pp. 79–84). Chicago: American Marketing Association.

Bitner, M. J. (1992). Servicescapes: The Impact of Physical Surroundings on Customers and Employees. *Journal of Marketing*, *56*(2), 57–71. doi:10.2307/1252042.

Carlbäck, M. (2010). From cost accounting to customer accounting in the restaurant industry, International Journal of Revenue Management , 4(3/4), 403-419.

Carlbäck, M. (2011).From Cost Accounting to Customer Accounting in the Hospitality Industry - a Constructive Approach. Retrieved from http://gupea.ub.gu.se/handle/2077/28069.

Cleland, A. S., & Bruno, A. V. (1996).*The market value process : bridging customer and shareholder value*. San Francisco: Jossey-Bass.

Esgate, P. (2002). Pine and Gilmore stage a fourth thinkAbout experience. *Strategy & Leadership*, *30*(3), 47–48.

Ewert, R., & Ernst, C. (1999). Target costing, co-ordination and strategic cost management. *European Accounting Review*, *8*(1), 23–49. doi:10.1080/096381899336131.

Guilding, C., & McManus, L. (2002). The incidence, perceived merit and antecedents of customer accounting: an exploratory note. *Accounting, Organizations and Society*, *27*(1–2), 45–59. doi:10.1016/S0361-3682(01)00030-7.

Gustavsson, I., Ostrom, A., Johansson, J. & Mossberg, L. (2006). The five aspect meal model: A tool for developing meal services in restaurants', *Journal of Foodservice*, Vol. 17, No. 17, pp. 84-93.

Hemmington, N. (2007). From Service to Experience: Understanding and Defining the Hospitality Business. *The Service Industries Journal*, *27*(6), 747–755. doi:10.1080/02642060701453221.

Langfield-Smith, K., Thorne, H. & Hilton, R. (2003). *Management Accounting: An Australian Perspective*, 3 ed. McGraw Hill: Macquarie Park.

Lovelock, C., Wirtz, J., & Chew, P. (2008).*Essentials of Services Marketing - 1st Edition* (1st ed.). Pearson Education.

Marshall, D., & Bell, R. (2003). Meal construction: exploring the relationship between eating occasion and location. *Food Quality and Preference*, *14*(1), 53–64. doi:10.1016/S0950-3293(02)00015-0.

McManus, L., & Guilding, C. (2008).Exploring the potential of customer accounting: a synthesis of the accounting and marketing literatures.*Journal of Marketing Management*, *24*(7-8), 771–795. doi:10.1362/026725708X345515.

McNair, C. J. (2007, February). Beyond the Boundaries: Future Trends in Cost Management. *Cost Management*, *21*(1), 10–21.

McNair, C. J., & Carr, L. (1991).Toward Value-Added Management Accounting.*CMA*, *65*(3), 26–28.

McNair, C. J., Polutnik, L., &Silvi, R. (2001a). Cost management and value creation: the missing link. *European Accounting Review*, *10*(1), 33–50. doi:10.1080/09638180122848.

McNair, C. J., Polutnik, L., &Silvi, R. (2001b). Customer value: A new kind of cost management. *Journal of Corporate Accounting & Finance*, *12*(3), 9–14. doi:10.1002/jcaf.3.

Mischitelli, V. (2000).*Your new restaurant*. Adams Media Corp.

Oh, H. (2000). Diners' Perceptions of Quality, Value, and Satisfaction A Practical Viewpoint.*Cornell Hotel and Restaurant Administration Quarterly*, *41*(3), 58–66. doi:10.1177/001088040004100317.

Oh, H., Fiore, A. M., &Jeoung, M. (2007). Measuring Experience Economy Concepts: Tourism Applications.*Journal of Travel Research*, *46*(2), 119–132. doi:10.1177/0047287507304039.

Payne, M., & Payne, B. (1993). Eating out in the UK Market structure, consumer attitudes and prospects for the 1990s.

Pine, B. J. (2011).*The experience economy* (Updated ed.). Boston, Mass: Harvard Business Review Press.

Pine, B. J., & Gilmore, J. H. (1998). Welcome to the experience economy. *Harvard business review*, *76*(4), 97.

Potter, G., &Schmidgall, R. S. (1999). Hospitality management accounting: current problems and future opportunities. *International Journal of Hospitality Management*, *18*(4), 387–400. doi:10.1016/S0278-4319(99)00044-4.

Raab, C., Mayer, K., & Shoemaker, S. (2009). Menu Engineering Using Activity-Based Costing: An Exploratory Study Using a Profit Factor Comparison Approach. *Journal of Hospitality & Tourism Research*, *34*(2), 204–224. doi:10.1177/1096348009349823.

Roslender, R., & Hart, S. J. (2010).Taking the customer into account: Transcending the construction of the customer through the promotion of self-accounting.*Critical Perspectives on Accounting*, *21*(8), 739–753.

Shields, M. D., Hopwood, A. G., & Chapman, C. S. (2009).*Handbook of management accounting research*.Elsevier.

Stratton, W. O., Desroches, D., Lawson, R. A., & Hatch, T. (2009). Activity-Based Costing: Is It Still Relevant? *Management Accounting Quarterly*, *10*(3), 31–40.

Watson, K. J., Blackstone, J. H., & Gardiner, S. C. (2007). The evolution of a management philosophy: The theory of constraints. *Journal of Operations Management*, *25*(2), 387–402. doi:10.1016/j.jom.2006.04.004.

Wayland, R. E., & Cole, P. M. (1997).*Customer Connections: New Strategies for Growth*. Harvard Business Press.