TO ASSESS AND COMPARE THE OPERATIONAL AND FINANCIAL PERFORMANCE OF STAND-ALONE RESTAURANTS IN KOLKATA

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ABSTRACT

Background: *Nowadays, numerous restaurants have started operating with different and creative ideas. Apart from the chains and traditional brands of restaurants, the stand-alone variety is also emerging with modern concepts. The analysis and comparison of the performance of these stand-alone restaurants will provide insights into the market for such outlets.* **Objectives:** *The study assesses and compares the performance of stand-alone restaurants based on their operations and financial management.* **Methodology:** *The study has been carried out on two restaurants located in busy areas of Kolkata, West Bengal, India. The tools used for primary data collection are in-depth interviews with the restaurant owners, consolidated with the restaurant's financial data. Analytical design was adopted and mathematical tool for data comparison was used.* **Results:** *It was observed that Restaurant Y performed better than Restaurant X, securing an average profit percent of 14.37% over 17 months. The other suffered an average loss of 10.28% during the same period. Patterns emerged indicating that revenue peaked during the months of September and October.* **Conclusion:** *Restaurant profiles, seating area, type of cuisine, value proposition alignment, cost structure, inventory, staff, and ticket price are important factors for a restaurant's success. Customer sentiments impact the market, while Bengal's Durga Puja is a driver for high revenue for such restaurants.*

Key Words: *Stand-alone Restaurants, Analysis, Comparison, Financial position, Performance, Trends*

INTRODUCTION

It has often been a custom to venture out in the weekend to have a sumptuous lunch or dinner with the family to the favorite restaurant. Nowadays, numerous restaurants have started operating with different ideas. Apart from the chains and traditional brands of restaurants, the stand-alone variety is also emerging with modern concepts.

Some of the factors contributing to the growth of the restaurant industry were rapid urbanization, growing awareness of Western lifestyles, more women joining the workforce, and higher disposable income. A study conducted by the Federation of Hotels & Restaurant Association of India (FHRAI) estimated that there were approximately 2.2 million or 22 lakh hotel and restaurant establishments in India in 2002 (AIMS). The industry was worth Rs. 43,000 crores in 2010. The restaurant industry is booming with increasing customers and higher sales. The industry has witnessed the entry of several QSR players. In 2016, according to NRAI, the Indian food service industry was worth over 3.09 lakh crores. The food services industry is valued at almost 5 lakh crores in 2021 witnessing a CAGR of 10% (SMERGERS, 2013).

Andaleeb and Conway (2006) determined the factors explaining customer satisfaction in the full-service restaurant industry. He found that customer satisfaction was influenced most by responsiveness of the frontline employees, followed by price and food quality (in that order). Physical design and appearance of the restaurant did not have a significant effect. Full-service restaurants should focus on three elements – service quality (responsiveness), price, and food quality (reliability), if customer satisfaction is to be treated as a strategic variable.

Kim et al., (2016) examined the influence of social media reviews and operating efficiency metrics on restaurant financial performance and explored the moderating role of an excellence certificate. He concluded that for a restaurant with an excellence certificate, a larger number of reviews or a better overall rating promotes net sales, guest counts, and average check to a larger degree compared to a restaurant without an excellence certificate. Consequently, to enhance a restaurant's top line, restaurant operators with an excellence certificate should keep the number of customer comments high and positive.

Kivela (1997) validated how determinant attribute analysis technique that isolates critical product attributes, can be a useful marketing tool for organizations hoping to penetrate new markets, and re-examine their current market needs. The results indicate that customer's perceptions and therefore their preferences of choice variables, varied considerably by restaurant type, dining-out occasion, age, and occupation. It suggested that the importance of perceivably unimportant attributes, can determine customers' final restaurant choice.

Lee et al.,(2012) wanted to understand the perception of restaurant service held by senior citizens and how it differs from those of younger customers. Statistically significant differences in levels of satisfaction were discovered between older and younger customers, but no significant relationship was found between level of customer satisfaction and perceived service quality. There were significant differences in perceptions of service quality between older and younger customers, and between male and female older customers.

Namkung and Jung (2008) conducted a study that identified key quality attributes that significantly distinguished highly satisfied diners from non-highly satisfied diners. This study shows that appealing food presentation, tasty food, spatial seating arrangement, fascinating interior design, pleasing background music, reliable service, responsive service, and competent employees are important attributes in contributing to the high satisfaction of diners.

Park and Kim (2020) analyzed the impact of inventory turnover on the financial performance in the US restaurant industry, along with the impact of commodity price risk. The results indicated that there was a positive relationship between inventory turnover and corporate financial performance.

Singh (2021) in an article explained the impact of rising rent costs on restaurant profitability and ROI in India. For a restaurant, rent is sustainable if it is below 15% of the total revenue. However, with increasing competition for prime locations, landlords charged higher amounts, making it unsustainable for many restaurants. Being a fixed cost, lower revenues hampered the liquidity of restaurants, eventually driving them out of business, especially if the rent was substantially high.

Sharma et al., (2015) analyzed the emotional labor in interactive service roles in Indian restaurants. Frontline employees in two restaurants were interviewed. The restaurants in India lacked a formalized training program on emotional labor. Also, the lack of sufficient compensation, and stress at the workplace led to high attritions. The study propounded a need for employees of restaurants to manage stress to control high attrition and enhance job satisfaction.

English (1996) conducted an analysis of restaurant failures in Texas, where he identified the different factors contributing to restaurant failure. Clear identification of target market was a factor leading to success. Strategies developed to attract specified customers must identify their need and expectations. In case of a mismatch, the likelihood of a failure was a distinct possibility.

Melgarejo et al., (2020) observed the impact of festivals and events on the Chicago hotel industry. They concluded that hoteliers have the confidence of an increase in Average Daily Rate (ADR) when a type of event or festival occurs in the city. This translated to a similar impact on the hospitality industry in general.

Banerjee (2021) in book "The Cultural Politics of Food, Taste and Identity" explained the impact of rumors and food-related incidents can have on the public sentiment. He analyzed the food scandal that took place in Kolkata in 2018, wherein rotten meat was being regularly supplied to restaurants. Although the scale of such a scandal was not verified, the incident spread scare and severely impacted people's perception on dining out. Hence, scandals and rumors often exaggerated by the media have significant impact on perceptions and consequently, restaurant sales.

Pantelidis (2010) identified those factors that were most salient in a guest's evaluation of a restaurant. Favorable comments far outnumbered negative reviews. Although food is established as the king of the meal experience, as found in other studies, the starter is cited as a highly memorable item in many consumers' comments. A preference structure model emerged suggesting that customers consider food, service, ambience, price, menu, and decor (in that order) when reflecting on their experiences. Depending on how management monitored and responded to them, comments on electronic guides and in social media could destroy a restaurant or help secure the business's longevity. Restaurant managers who responded successfully to comments in electronic forums could turn an unsatisfied customer to a loyal one.

Sen (1998) summarized predictions about the use of franchising as an expansion strategy and examined them. The results suggested that franchising is an effective strategy for store expansion. However, larger chains have a lower need to use franchising as a growth strategy, apparently because they have their own resources. The paper also showed that the chain's mix of company-owned and franchised outlets was likely to be influenced by its past growth pattern. The results indicated that a significant increase in the proportion of franchised outlets is unlikely for chains that already had a relatively high percentage of franchised outlets. This was ostensibly because synergistic benefits were achieved through having both company owned and franchised stores.

Timilsina (2017) examined the impacts social media has in business and how social media was influencing business activities. The result showed that social media had positive impact on restaurant business. Accepting social media by restaurants led to increment in sales and flow of customers. Facebook and Instagram were social media tools used by the restaurants. Word of mouth played a vital role for attracting new customers. Social media provided cheap and accessible marketing platform to reach to thousands of customers instantly.

The analysis of the financial data of the stand-alone restaurants will be beneficial to the management. They can check the trends along with their financial performance including profits, revenue and cost that will be observable from the results and discussions. The comparison between the restaurants will give an insight as to where and how they are having a competitive edge over the others. The data will also be helpful to those who are looking to start a stand-alone restaurant, have a clear look at the bigger picture; the realistic margins, costs and what to expect in the first few years.

The objectives of this study were:

- To assess and compare the performance of stand-alone restaurants based on their operations and financials.
- To observe the trends in the performance of the restaurants.

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METHODOLOGY

Research Design: Analytical design was used for the present study.

Locale: The research was conducted on two restaurants. Restaurant X was located in Rajdanga Main Road, East Kolkata Township, W.B., India, while Restaurant Y was located in Mullick Bazaar, near Dharamtala in Kolkata, W.B., India.

Sampling Design: The sample size was 2 restaurants. Restaurant X was a multi-cuisine stand-alone restaurant offering Chinese, Continental, and Thai dishes with a seating capacity of 48 covers. Restaurant (Y) was an Indian stand-alone restaurant with a seating capacity of 40 covers. Both delivered through multiple delivery platforms and operated during from 12 noon till 11:30 pm.

Tools and Techniques: Restaurant owners were approached to understand about the stand-alone restaurant market and the challenges they faced on operating restaurants in Kolkata. The insight was obtained through in-depth interviews with the respective restaurant owners. The qualitative insight was corroborated with the help of financial data of the restaurants over a period of 17 months between August 2017 and December 2018. The secondary data provided information on the metrics for performance assessment, margins and their details, metric value ranges, preferences of customers, importance of reviews, business models, forecasting techniques and other operational and managerial aspects of the restaurant business.

Data Analysis: The primary data obtained from the restaurants was further refined and analyzed to arrive at the results.

The restaurants preferred to remain anonymous. Hence, they are referred to as “Restaurant X” and “Restaurant Y” in the research.

Statistical Analysis: Mathematical tools and graphs were used for comparing profit/loss.

RESULTS AND DISCUSSION

The results and figures discussed below have been obtained on analyzing the financials of the two restaurants, provided in Table 1 and Table 2 under the references section.

It is to be noted that before starting the analysis, there is a need to understand the restaurants; the type, the cuisine they offer, their seating capacities, the target markets, and their locations. Restaurant X was a stand-alone economy-service multi-cuisine restaurant offering Chinese, Continental, and Thai dishes. Despite being a multi-cuisine restaurant, it took pride in its assortment of continental dishes. It had a seating capacity of 48 covers and delivered food through food delivery partners. It operated during lunch, evening, and dinner. It was in a busy area with many restaurants established in the vicinity offering stiff competition. The average ticket price per customer was higher.

Restaurant Y was a stand-alone economy-service speciality cuisine restaurant serving North Indian cuisine. It had a seating capacity of 40 covers and delivered food through food delivery partners. It operated during lunch, evening, and dinner. It was in a busy area, however, the number of similar competitors in the vicinity was comparatively lesser than Restaurant X. The average ticket price per customer was lower compared to Restaurant X.

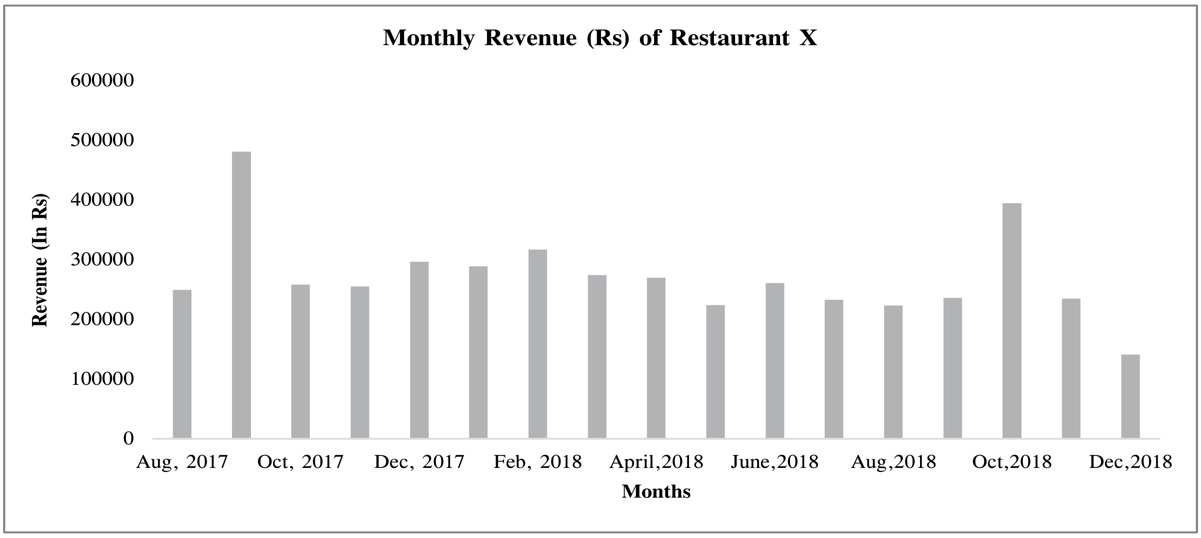

Figure 1: Revenue Performance of Restaurant X

The revenue of Restaurant X was observed to peak in the months of September 2017 and October 2018 (highlighted), attributable to the fact that restaurants in Kolkata experience a high footfall owing to Durga Puja and Kali Puja/Diwali. During these two months, the average revenue was Rs. 4.37 lakhs. For the remaining period, the average revenue was Rs. 2.50 lakhs.

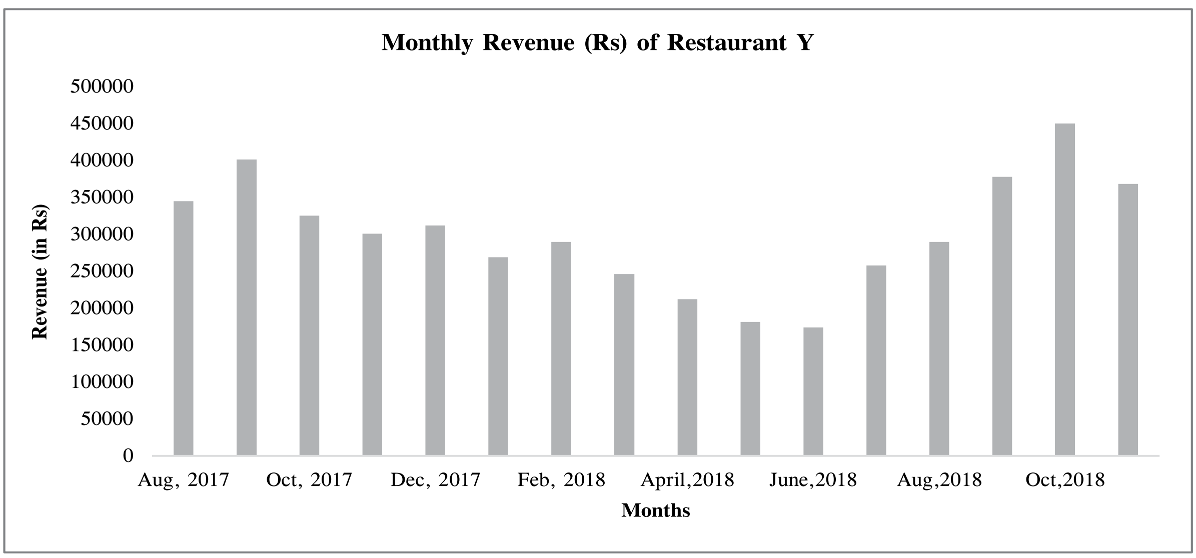

Figure 2: Revenue Performance of Restaurant Y

The revenue of Restaurant Y was also observed to peak in the months of September 2017 and October 2018 (highlighted), attributable to the impact of festival season. During these two months, the average revenue was Rs. 4.25 lakhs. For the remaining period, the average revenue was Rs. 2.87 lakhs.

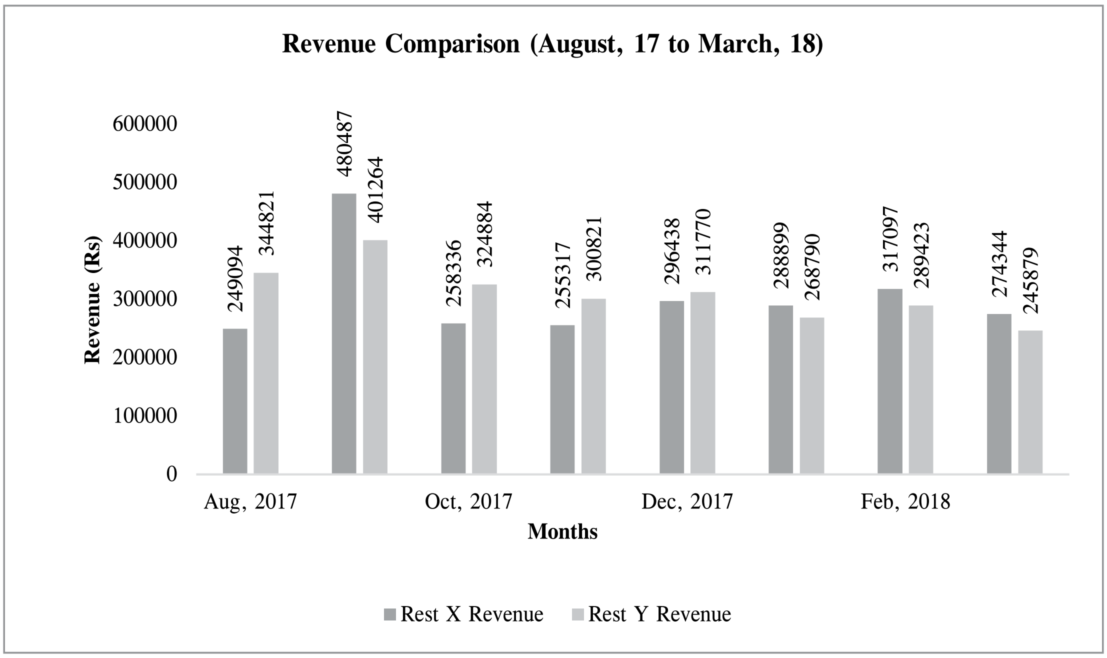

Figure 3: Revenue Comparison between Restaurant X and Y (August, 17 to March, 18)

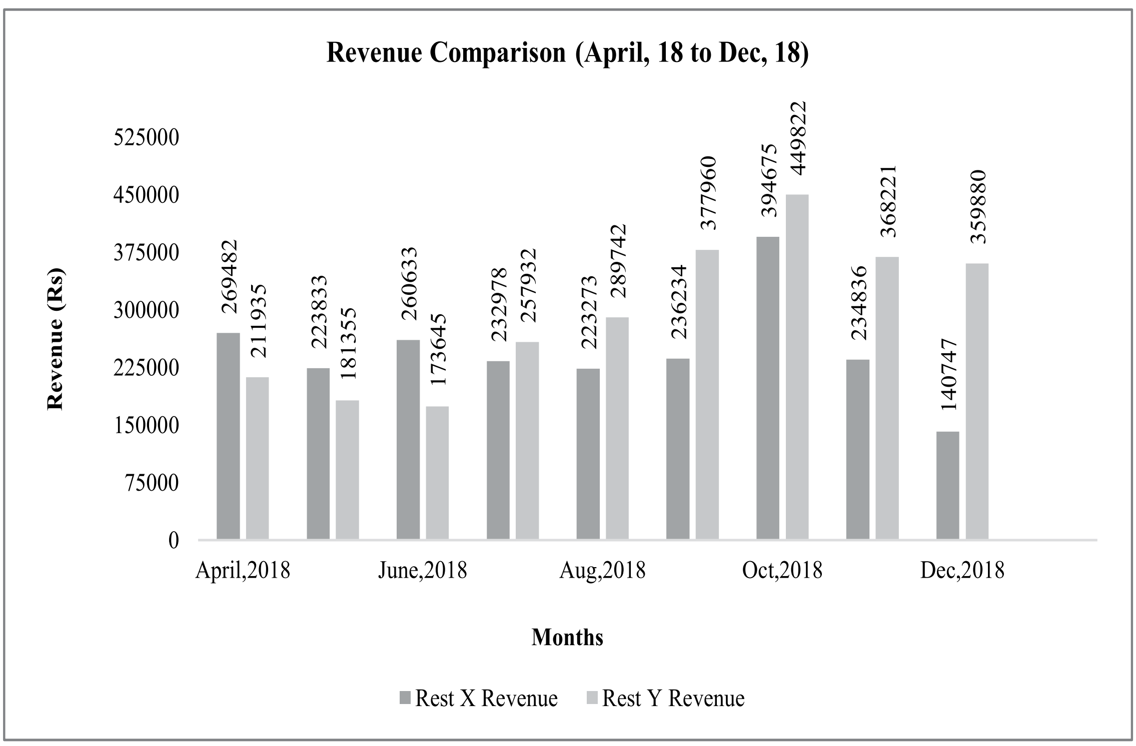

Figure 4: Revenue Comparison between Restaurant X and Y (April 18 to Dec, 18)

The revenue difference between the two restaurants is observable from the above chart (Fig 3) Restaurant Y outperforms Restaurant X in 10 of the 17 months. The average revenue difference between the two restaurants is Rs. 30,673. The reasons for the same will be discussed in detail.

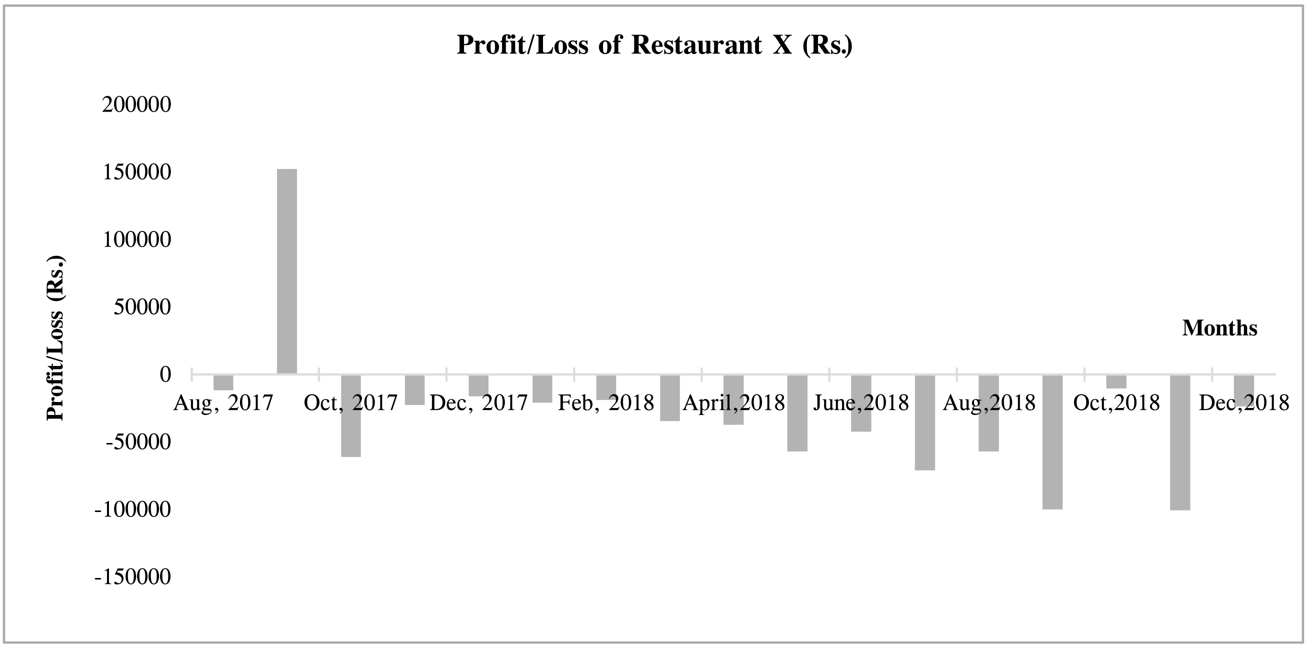

Figure 5 : Profitability Performance of Restaurant X

The profitability performance of restaurant X was poor, as it achieved profit only in September 2017. Even in October 2018, the restaurant incurred losses despite it generating a revenue of Rs. 3.94 lakhs, indicating serious expenses resulting in such a performance. The average loss for the period was Rs. 31,264.

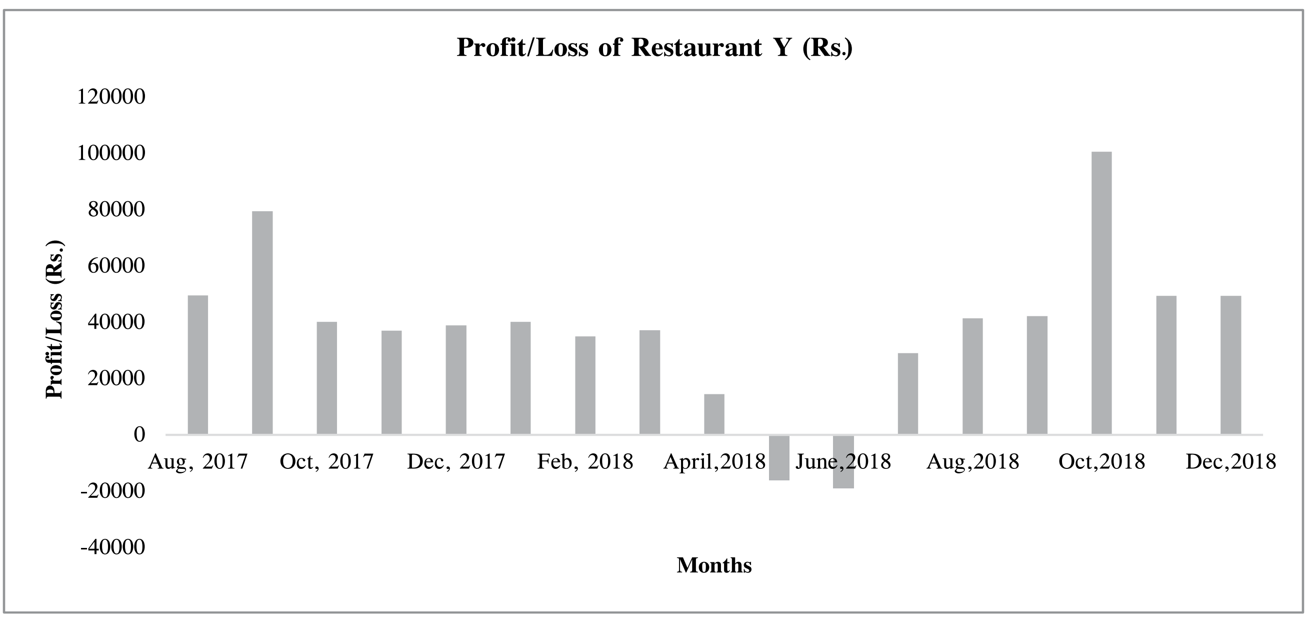

Figure 6: Profitability Performance of Restaurant Y

The profitability performance of restaurant Y was decent, as it achieved an average of Rs. 45,559 profit in 15 months out of the 17-month period. However, it incurred losses in April and June 2018 amounting to Rs. 35,115. The average profit for the entire period was Rs. 38,134, indicating an average PAT (profit-after-tax) margin of 12.5%.

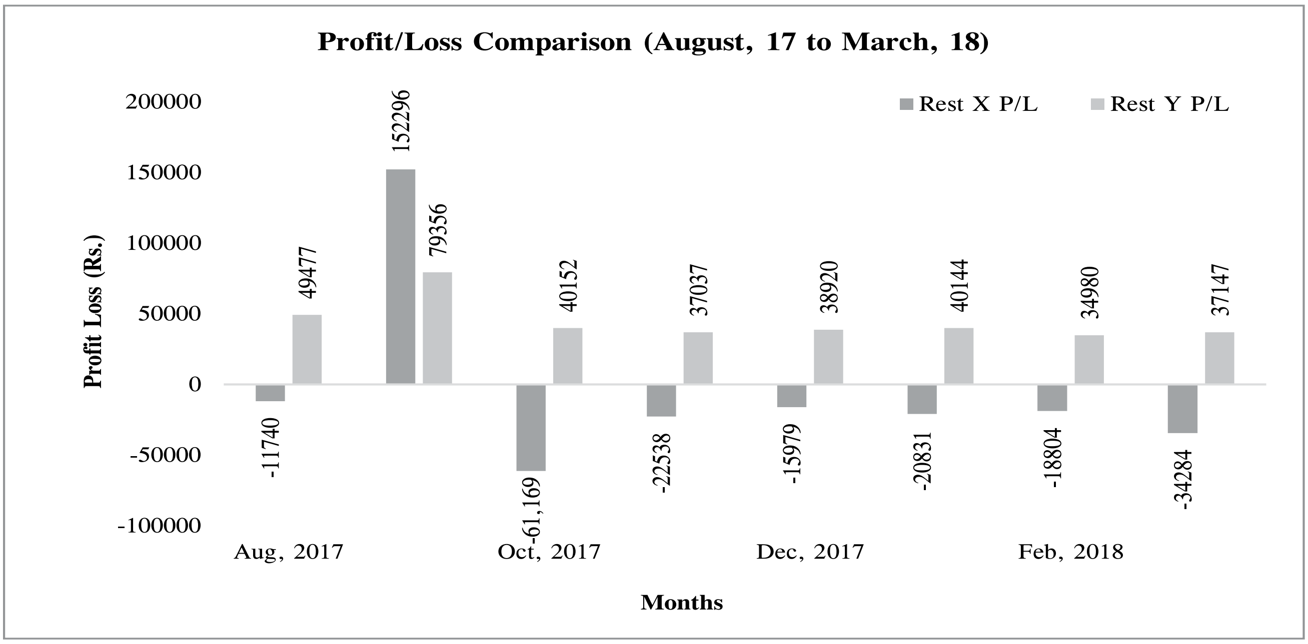

Figure 7: Restaurant Y's better performance compared to X in terms of profitability (August, 17 to March, 18)

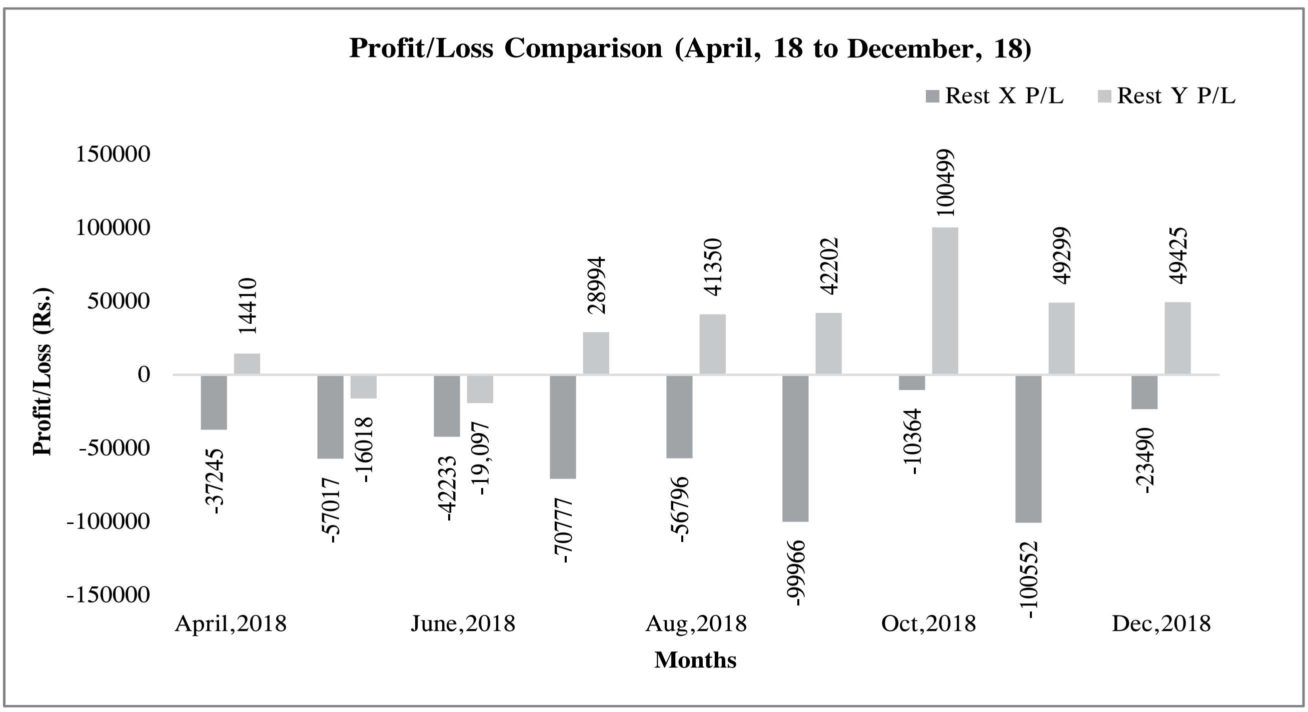

Figure 8: Restaurant Y's better performance compared to X in terms of profitability (April, 18 to December, 18)

As its observable, restaurant Y performed much better than restaurant X, except for September 2017. The average difference between profit of the two restaurants was Rs. 69,398. For the entire period, the cumulative difference between profit/loss of restaurant Y and that of restaurant X was Rs. 11.79 lakhs, indicating a substantial difference in performance.

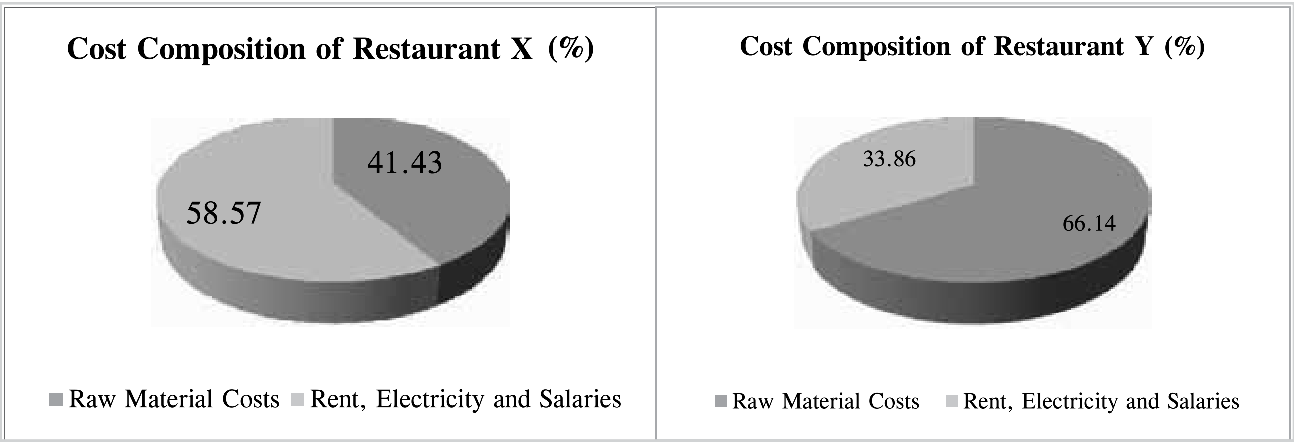

Figure 9: Comparison of the Cost Composition of the two restaurants

Restaurant X had 58.57% of its cost from Non-COGS expenses (rent, electricity, and salary), while restaurant Y had only 33.86% Non-COGS cost. This meant that the cost to produce dishes was a larger percentage of total cost for restaurant Y than restaurant X, indicating a better cost structure of restaurant Y.

Thus, from the key results, three important points were observed:

- Better revenue performance and substantially better profitability of restaurant Y compared to restaurant X, despite the two stand-alone restaurants being very similar in terms of scale.
- Better expense management of restaurant Y compared to restaurant X.
- Trend in revenue and performance, with certain months (September and October) gathering significant revenue compared to other months.

The above differences were understood on in-depth discussions with the respective owners, the insights of which are explained in detail below.

Revenue disparity: As it is observable, restaurant Y had performed significantly better than restaurant X, in terms of revenue and profits. On discussions with both the owners, it was observed that restaurant X was suffering from a "Confused Value Proposition". Restaurant X's core offering, and distinguishing feature was its continental cuisine. It targeted the segment of the population which would consume this cuisine at a more economic price. However, the market of such target segment was not large, and therefore, most people dining out seeking continental cuisine would prefer going to an upscale fancy restaurant rather than an economic mid-scale restaurant. People were unable to associate continental food to a small restaurant. An average diner visiting restaurant X was more aware of Butter Chicken than Chicken A-La-Kiev. Additionally, lack of alcoholic beverages to complement the continental cuisine was a disadvantage for the restaurant. Restaurant Y focused its offering on North Indian cuisine, which was widely accepted, and the scale and ambience of the restaurant was aligned with its value proposition.

Another reason for the success of Restaurant Y was the cost of inventory and the cost to produce an item. Being a single cuisine restaurant, the variety required was less; it was easier to predict the sales and manage the inventory. In case of Restaurant Y, being a multi-cuisine restaurant, the higher variety led to a higher inventory cost, and it was harder to predict customer preferences. Hence inventory management was more difficult. As a multi-cuisine restaurant, there were some exotic dishes which require ingredients that were not commonly available. Procuring these ingredients was an issue, and if the products involving these ingredients were not sold, the inventory turnover would be low. The commodity price risks were another issue for such ingredients.

Expense Structure: From the expense chart, non-COGS expenses contributed to ~59% of total expenses of restaurant X compared to ~34% of restaurant Y. A restaurant with lower proportion non-COGS cost will perform better than one with a higher proportion of non-COGS cost. The owner of restaurant X did not own the property, and since it was in a busy part of the town next to a large mall, the rent cost was extremely high. Before starting operations, the owner expected to recover this fixed cost through higher sales. However, he was not able to do the forecasting correctly. On the other hand, the owner of restaurant Y already owned the property from a long time and decided to start a restaurant later. This significantly reduced the fixed cost per month as the property investment was an asset for the restaurant.

Another aspect that came to light after discussion with the owner of restaurant X was a high attrition rate in the restaurant i.e., frequent staff exits. There was also the concern of theft and issue of reliability. There were instances of under reporting of bills and money laundering. Employees would seek leaves and not return to work after that. Seeking his replacement was time consuming while putting additional pressure on the remaining staff. Staff costs were also high. Since there was only one set of staff members looking after lunch and dinner, with several staff members coming from outside the city, the owner had to arrange for staff quarters and staff food. That was an additional burden on the cost structure of the restaurant.

Trends in performance and revenue: Kolkata is known for its Durga Pujo which usually takes place in September or October. During that period, there is influx of tourists from different parts of West Bengal and India into Kolkata. Being a festivity for a period of 4-6 days, eating out is a prerequisite during the time. Hence it is an opportunity for restaurants to capitalize. With proper inventory, staffing and forecasting, one can maximize the revenue during this period. Therefore, the increase in revenue in the month of September 2017 and October 2018 can be attributed to the Durga Pujo and Diwali/Kali Pujo taking place in Kolkata.

It is observable that restaurant Y incurred losses in the month of May and June 2018. Even April 2018 saw a drop in profit percent from 17% to 7% and subsequently plunging into loss in May and June 2018. This trend can be attributed to a scam that had occurred in that time where word spread that meat from rotten carcasses was being supplied to restaurants. The perpetrators were caught and there were different cases of individuals falling sick after eating out. Rumours spread through social media and people were heavily influenced by the incident. They stopped eating out. This resulted in a huge dip in profits for numerous restaurants with Restaurant Y plunging into losses in May and June 2018. However, by the end of June, people resumed eating out and the restaurants experienced normal traffic by September 2018. The effect is not apparent from the figures of restaurant X due to overall low revenue performance and profitability during the period.

The findings obtained conform the existing literature. Inability of restaurant X to attract the target audience was a key reason for poor performance, as mentioned by English (1996). Inventory turnover and the risk of commodity price fluctuations was another operational issue for restaurant X, as previously stated by Park and Kim (2020). The rent burden on restaurant X's cost structure leading to losses was discussed by Singh (2021) in an article highlighting the plight of restaurants with high rents. Lack of professional staff and high attrition was another issue faced by restaurant X, a matter explored by Sharma et al., (2020). Melgarejo et al., (2020) observed that festivals have a positive impact on the hospitality industry. The impact of Durga Puja and Diwali/Kali Puja have already been established in this research. Banerjee (2021) in his book analysed the impact of the meat scandal on consumers, the effect of which is also visible in the restaurants' performance, highlighting the importance of consumer sentiment.

CONCLUSION

The analysis and research show that certain factors influenced the performance of stand-alone restaurants. These restaurants did not have a long hierarchy, and the owners supervised over the operations. The two restaurants reviewed were targeting the section of the population having modest incomes. However, it is also to be considered that while targeting such a section, one must keep the cuisine preferences in mind. Restaurant X was serving Continental, Chinese and Thai cuisine; however, most of the people of the target section would not be aware of Continental and Thai cuisines. Restaurant Y on the other hand was serving North Indian cuisine, which is widely popular. It is also to be kept in mind that the average cost for an individual to have food in

Restaurant Y was lesser compared to Restaurant X. Therefore, for an individual having no cuisine preferences, he/she would see more value for money in Restaurant Y. Restaurant X also had employee management issues. Hence, it is important to select reliable staff and introduce schemes that would retain them like incentivising. Additionally, having local staff is also beneficial. Costs are an important factor. If there is rent, then it should not be such a huge part of total cost; and if it is then the revenues should be in line to recover that. Owning the property is a much safer bet. Proper menu selection, removal of dead dishes or slow-moving items, and regularly updating the menu are other factors resulting in successful inventory management. These were the areas in which Restaurant Y had a competitive edge over Restaurant X. It was observed that sales increased during festivities especially during Durga Puja. Customer sentiment also played an important role in the success of these restaurants.

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