Investigating the Role of Benchmarking as a Cost Control Measure: Lessons from Selected Restaurants in Johannesburg, South Africa

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Benchmarking has been used and adopted by many companies in industries as a tool for performance measurement and possible improvement. It has been difficult to implement benchmarking as cost reduction tool in the restaurant industry because of high operational costs, and also different cost structures require different cost control measures. This study evaluated the role of benchmarking as a possible cost reduction tool in the restaurant industry. The main objectives are to: (1) identify the drivers of cost in the restaurant industry; and (2) demonstrate the implication for adopting benchmarking as a cost reduction tool in the restaurant industry. The study adopted a survey research design reflecting on 5 restaurants purposively sampled and a mixed method research approach was used. Interviews and questionnaires were used for data collection. The research findings reveal that those restaurants that implemented benchmarking realized an improvement in their overall costs reduction, and have a better understanding of their cost drivers. The challenges that are faced by restaurants in implementing benchmarking included lack of consistency and inadequate resources for an effective control of the whole process. Recommendations included the need to hire well trained employees that can effectively and consistently use the resources provided.

Key Words: Benchmarking, cost structures, restaurants, operational costs, South Africa

1. **Introduction**

The restaurant industry has been able to play a significant role in contributing to the growth of the South African economy and Africa at large with the food and beverage sector contributing about 7,7 % to the economy between 2014 and 2015 (Statistics SA, 2015: Kleynhans & Roberson 2017). The South African restaurant industry is a billion Rand industry that is growing rapidly and expanding with a total turnover of R1728 billion per year (CATHSSETA, 2013: Kleynhans & Roberson 2017) In a global perspective, the industry is still considered as one of the fastest growing industries due to its dynamic characteristic and since 1960s, development has been the trend all over the world (Dela et al. 2016)

Increasing a restaurant business' profitability and operational efficiency does not happen overnight (Aber 2017). Many restaurants have achieved ongoing success just by implementing best practices that are derived from benchmarking internally and against its competitors (TDn2K 2019). Comparing one's organisation to others and learning from them has been an important aspect of business management, and mostly comparing restaurants with similar operations, customers and challenges is more beneficial for business improvement. (Barrows et al. 2016).

According to Hwang & Sneed (2004), benchmarking was first adopted by the Xerox Corporation to meet the Japanese competitive challenge of the 1970s. Harris & Mongiello (2006) also discussed that when benchmarking was first introduced in the Xerox Case not only financial metrics were introduced but strategic benchmarking as an operational and managerial duty. Camp1989: Harris & Mongiello (2006) defined strategic benchmarking as surveying competitors to find the best strategy for business and operational benchmarking looks at the costs and means of differentiating products. Management benchmarking is when support functions are compared while with operational benchmarking, relative costs will be measured.

Generally, the main aim of benchmarking is to improve the quality of customer service by implementing the best quality control measures. Addressing the quality requirements of customers will not only contribute to customer satisfaction only , but to positive financial results, increased re-patronage, positive word of mouth advertising, retention and expansion of customers, reduced costs, increased customer loyalty and achievement of restaurant aims goals (Duggal & Verma, 2013; Nayak, 2013:Kleynhans & Roberson 2017). To be successful in the challenging restaurant industry and to outmanoeuvre competitors' restaurants need to maintain a competitive advantage in terms of the selection of food and beverage products, service quality, relevant technology and price. Restaurateurs can achieve these goals only when they compare their quality standards to those of industry leaders (Phillips & Appiah-Adu, 1998: Kleynhans & Roberson 2017 .The aim of this research is to investigate the role of benchmarking as a possible cost reduction tool in the fast food restaurant in Johannesburg, South Africa. In order to achieve the aim of the study, the paper first identified the cost structures in the restaurants selected for research. The next step is to demonstrate the implication for adopting benchmarking as a cost reduction tool in the restaurant industry. Lastly the paper will identify the challenges faced by restaurants in the implementation of benchmarking

2. **Literature Review**

Benchmarking is defined as a continuous, systematic management process for measuring work processes, products, and services for the purpose of organisational comparison and improvement (Johnson & Chambers 2000b: Hwang &Sneed 2004). In addition, Barrows et al.

(2016) found out that benchmarking allows for all measurable processes, systems and results to be compared against those of other companies.

2.1 Concept of Benchmarking

According to Hwang and Sneed (2004), there are four type of benchmarking procedures which are: internal, competitive, industry and functional. Internal benchmarking is done by collecting and analysing information to compare amongst different departments of a company. It is the most commonly used tool for measuring performance by non- commercial foodservice directors. On the other hand, competitive benchmarking is when one company's operations are directly benchmarked with its competitors in the same industry. Lastly, functional benchmarking contrasts organisations with high quality products, services or processes

Benchmarking has been defined by TDn2K (2019) as the process of identifying best practices to determine where an organisation stands in relation to internal processes or companies. It is a tool that enables operators and managers to identify problem areas and find opportunities for ongoing learning and improvement in the restaurant. Even though cost structures and desired goals differ from one restaurant to another it is important to develop a benchmarking framework strategy to consistently and effectively tackle benchmarking as a cost reduction tool was to.

The figure below by TDn2K (2019) illustrates that the first stage in benchmarking is to define what you plan to measure for example determining your Key Performance Areas (KPIs) or restaurant metrics and getting to know your competitors in the industry. The next step would be to identify the benchmarks based on the KPIs identified and the results of the industrial research done. Before a restaurant can compare itself to a similar organisation, it must have an understanding of what those similar restaurants are (Barrows et al, 2016). After that communication becomes a vital tool to ensure that everyone is on the same page with the desired goals. The next stage will be to measure the performance against the chosen benchmarks. After all has been done there will be room for any improvement and also to set new KPIs.

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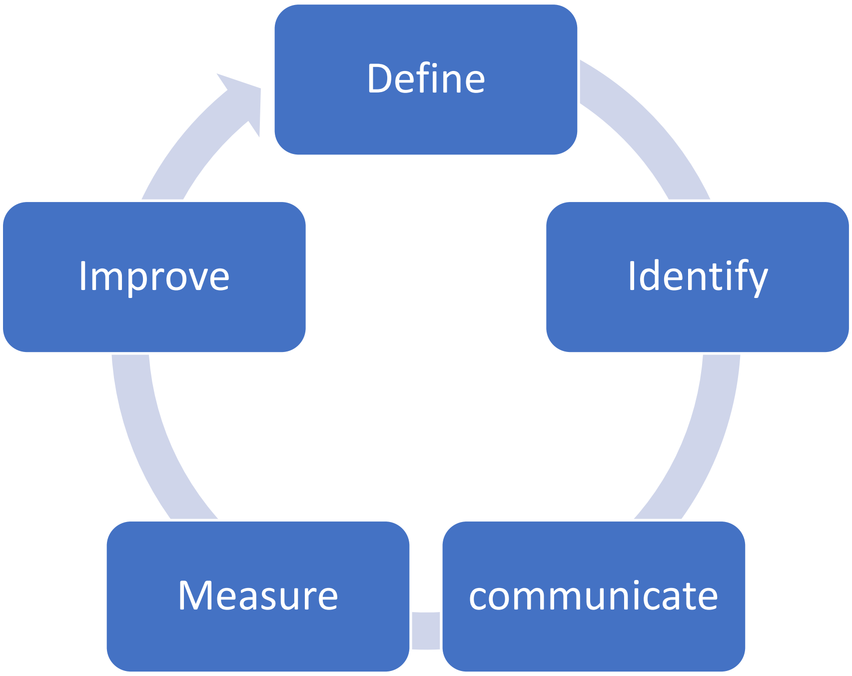

Figure 1 Benchmarking Cycle

Source: TDn2K (2019) modified by author

Comparing financial information has proved to be effective for the assessment of internal operating performance related to budgeting and past results, whereas common size analysis facilitates operating performance comparisons on an inter-company and industry basis (Harris and Brown 1998: Wober, 2000). Wober (2000) described three ways that management can use to evaluate and control business performance: these are

- Comparing budgeted versus actual input and output factors;
- Comparing input and output factors over multiple periods; and
- Comparing input and output factors with main competitors

The first two instruments can be implemented within a firm and without incorporating any external data from other companies. The latter refers to performance monitoring and measurement between organizational units. Organizational units may refer to internal departments, several outlets of one company, or several companies within one industry. For example, by measuring the efficiency of its internal divisions, a company will understand their relative performance. This helps the managers to check if any appropriate corrective action needs to be taken and provides indications as to what kind of action, if any, should be taken (Wober, 2000).

Restaurant managers can gain meaningful and useful information from both internal and external benchmarking. As a method of comparing with itself, its competitors or even the industry with the intention of identifying its strengths, weaknesses, opportunities and threats benchmarking was identified Harris & Mongiello (2006) as beneficial as it measures the operational performances and set the standard.

In a practical point of view benchmarking ignores the differences in operating environments and service levels. Wober (2000) argues that, the great success of benchmarking in recent years is probably related to its inherent characteristic of being a knowledge-sharing and motivational process. It encourages managers and their staff to think in terms of performance measures and practices to increase profitability. Unfortunately, Hwang & Sneed (2004) disagree that there is limited data available for the restaurant managers to use for benchmarking. The level of detail provided for the selection of benchmarking partners seems insufficient, especially when compared to the efforts and costs involved in site visits and the implementation of change in the organisation (Guilding & Lamminmaki 2007)

Kleynhans. & Roberson (2017) expresses that in independent full-service restaurants it can be difficult to apply benchmarking as restaurateurs seem to have inadequate knowledge or access to benchmarking tools and are unsure how to implement best practices (Hwang & Lockwood, 2006). A lack of resources and knowledge lead to a low commitment to benchmarking. With no generally accepted industry service quality norms and standards, benchmarking is almost impossible to implement (Phillips & Appiah-Adu, 1998). Ladd (2010: Kleynhans. & Roberson 2017) warns that if the process of benchmarking is flawed, the misinterpretation of the restaurant's competitive position will yield average performance. Benchmarking does not pretend to offer a solution to managerial and quality problems, as it does not differentiate between efficient and inefficient practices (Deros, Yusof & Salleh, 2006)

According to Kleynhans. & Roberson (2017), South African restaurateurs have not fully implemented benchmarking yet. They have a limited knowledge and experience on benchmarking, which could dull their competitive edge. The researchers found out that if restaurateurs become aware of the use of benchmarking as a tool to understand their operations, this will lead to the development of accurate productivity measurements, thereby ensuring that restaurateurs would use benchmarking to achieve sustainable cost control strategy in a demanding industry. South African restaurants have great potential for success as the country's tourism industry is thriving in recent years. Restaurants should take advantage of these opportunities to establish a total quality management system which would ensure competitive advantage in the industry. It is important that restaurateurs acquire detailed information and knowledge on benchmarking. An inquiry into benchmarking internationally could be undertaken to determine whether restaurateurs are aware of global quality management standards. Before benchmarking can be executed successfully the organization needs to establish best practice. One of the key aims should be to convince the entire organization to embrace benchmarking

3 Methodology

The study adopted a survey research design reflecting on 5 restaurants from Johannesburg South purposively sampled and a mixed method research approach was used. This research adopted a survey research design as it investigates the role of benchmarking as a cost control tool in the restaurant industry. To collect the data interviews and questionnaires were used. Questionnaires were considered as the best tool to collect the data from the respondents as it allows them to respond at the time or location of their convenience. Some questionnaires were distributed online to managers and operators of restaurants while others were handed in during the time of interviews with the shop operators. The questionnaires included both open and closed ended questions. Interviews were also considered as a better way to collect the data collection because it allowed the researcher to get more detailed information that would be left out from the questionnaires and the fact that not all respondents are fluent in English. A total of 50 questionnaires were distributed electronically and physically. A total of 5 interviews were conducted with the key informants which are top management so as to collect information from their yearly planned budgets. Information such as sales growth and traffic or client growth, feedback from customers (Go- review ratings, social media rating), management and non -management turnover, service quality, food cost, and the cost of beverages were obtained through extensive interviews. The research uses tables and graphs to comparatively analyse the results obtained. The aim of comparative analysis is to spurn a reasoned investigation into the processes that provoked the indicators, but does not provide immediate new targets (Harris & Mongiello 2006)

4 Discussion of findings

The table below shows an income statement for one of the restaurants illustrating internal benchmarking. As discussed in the literature review chapter by Wober (2000) a company can compare its budgeted turnover and expenses versus actual input and output factors over multiple periods. The income statement shows projected turnover from the month of November 2020 to February 2021 and being compared to the actual turnovers from the previous year 2019 to 2020. Every restaurant wants and expect growth therefore in every budget there is always a hope for growth hence the projected figures will always be more than that of the previous year. For the month of November 2019 the restaurant got a total turnover of R753 404 and the projected turnover for the same month in the year 2020 is R780 000. This shows a growth in turnover of R26 496 and a projected percentage growth of 3,52%.The percentage changes shows some projected growth of 0,18% in turnover from the month of January to February 2021.

INCOME STATEMENT	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	TOTAL
GROSS TURNOVER - ACTUAL (2019 TO 2020)	753 504	899 719	897 000	651 246	2 975 965
GROSS TURNOVER - BUDGET (2020 TO 2021)	780 000	925 000	700 000	680 000	3 085 000
NET: TURNOVER - RAND GROWTH / DECLINE	26 496	25 281	28 504	28 754	109 035
percentage growth / decline	3,52%	2,81%	4,24%	4,42%	3,66%
NETT: TURNOVER	678 261	804 348	608 696	591 304	2 682 609
COST OF SALES	244 174	289 565	219 130	212 870	965 739
FOODCOST PERCENTAGE	36,00%	36,00%	36,00%	36,00%	36,00%
GROSS PROFIT	434 087	514 783	389 565	378 435	1 716 870
GROSS INCOME	434 087	514 783	389 565	378 435	1 716 870
EXPENSES	377 349	409 088	398 294	385 172	1 569 902
EXPENSES %	56%	51%	65%	65%	59%
NET: TRADING PROFIT BEFORE TAX	56 738	105 695	- 8 729	- 6 737	146 967
percentage profit / loss	8,37%	13,14%	-1,43%	-1,14%	5,48%
NET: CASH FLOW PROFIT BEFORE TAX	97 436	146 392	31 969	33 960	309 757
NET: CASH FLOW achieved previous year.	58 723	118 276	- 29 755	- 16 256	130 989
difference	38 712	28 117	61 724	50 216	178 768
PERCENTAGE - IMPROVEMENT / DECLINE	39,73%	19,21%	193,07%	147,87%	57,71%

Table 1: Comparing budgeted versus actual input and output factors

Source Research findings 2020

4.1 Comparing input and output factors with main competitors

Table 2 below shows one of external benchmarking strategies between 5 restaurants that were chosen for the study. By looking at the figures below restaurant A is leading in terms of sales and traffic growth with 3, 9% and 0. 31 % respectively while the lowest is restaurant D with -1, 36 % and 2, 81%. Management and non-management turnover were also used as a benchmark to check the number of years people stay at a workplace. Level of motivation, dedication from employees and the salaries paid to employees and managers determine the turnover rate. The results shows that restaurant E has a low management turnover of 23 % and restaurant A has a low non-management turnover of 91, 5%. The norm is that they will be getting reasonable salaries for them to stay for a long time at one company. High labour turnover is caused by low motivation and unfavourable working conditions.

	Sales Growth	Traffic growth	Management Turnover	Non- Management Turnover
Restaurant A	3,07%	0,12%	25,30%	91,50%
Restaurant B	3,90%	0.31%	27,80%	94,70%
Restaurant C	-1,24%	-2,73%	36.0%	104,80%
Restaurant D	-1,36%	-2,81%	44,70%	114,30%
Restaurant E	2,01%	-1,32%	23%	97,30%

Table 2: Financial and work force metrics

Source TDn2K (2019)

The results shown on the figure below shows a benchmark of total labour costs within the five restaurants. With reference to Bloom Intelligence (2019) this metric measures the percentage of each sales dollar required to cover the cost of store labour. Restaurant A's total labour costs are 17.89 % and are much higher than the other benchmarks.

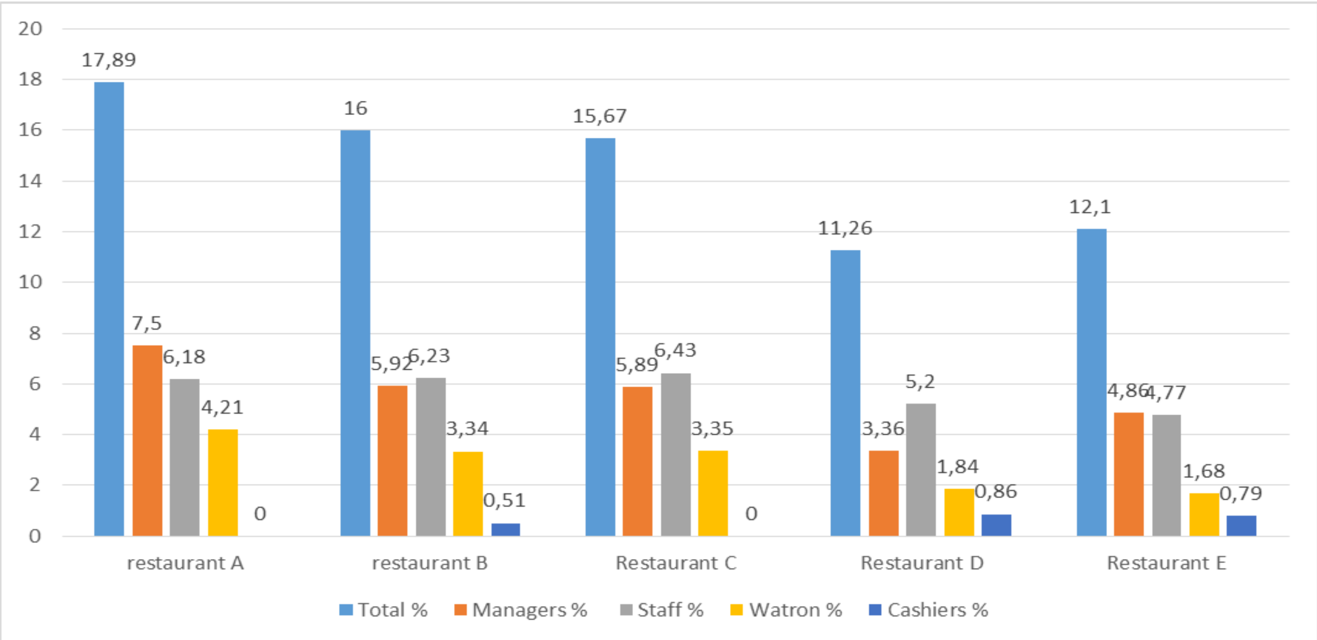

Figure 2: Labour Cost Analysis

Source: Author

4.2 Cost of Sales

Internal benchmarking helps management in decision making such as to improve their advertising in an effort to improve the market share. Aber (2017) discussed that food cost percentage represents the difference between the cost of creating a specific menu item and the selling price of that item. There should always be a benchmark for example 36% is the standard that every restaurant should attain and anything above that means it is not performing well. Food cost is calculated by dividing total costs by total sales for a week or month. Cost of Goods Sold refers to the cost required to create each of the food and beverage items that are sold to customers and it is important to monitor this because it is one of the largest expenses for restaurants (Aber 2017).

As shown in the table below, benchmarking the total cost of sales for each store helps to improve on areas that are behind. The table shows the breakdown of food cost in a restaurant. Those with higher cost of sales will look into the high cost areas and find strategies to reduce costs. Even though it was difficult to obtain accurate information, this table below shows the percentage contribution of each expense category to sales for a particular restaurant.

CATEGORY	**Percentage**
Beverages	2,50%
Bread	1,25%
Cheese	1,97%
Chicken	3,24%
Coffee	0,17%
Dairy	1,38%
Desserts	0,54%
Fries	2,99%
Fruit & Veg	1,83%
Groceries	3,98%
Liquor - Beer Craft	0,63%
Liquor - Beer Local	0,83%
Liquor - Spirits	0,34%
Liquor - Wine	0,27%
Meat	7,36%
Mushrooms	0,64%
Oil	0,83%
Packaging	2,45%
Ribs	2,69%
Shakes / Shake Mix	1,35%
Total	**37,24%**

Table 3: Cost of Sales

Source: author

There are a few aspects that can be considered to help gain a bigger market share such as appealing food presentation, satisfying customer expectations by offering high quality and consistent food portioning. In the restaurant industry there are grading systems that are designed to compare and measure service delivery and business performance. These findings will influence customers' willingness to purchase again and to recommend the restaurants to other individuals.

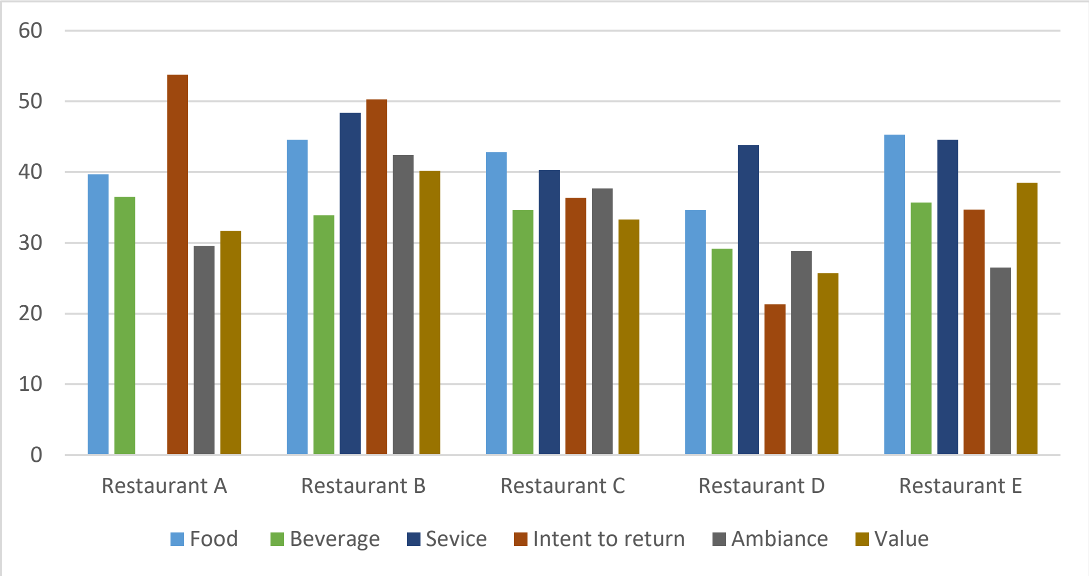

Figure 3: Feedback from customers

Source: Author

5. Conclusions

In South Africa, most restaurants have not fully implemented benchmarking. They have limited knowhow and experienced employees that can implement it effectively. As a measure that can help to generate new ideas of reducing costs in restaurants, benchmarking needs to be a continuous process that has to be communicated among all employees. Training should be an on-going process with staff members so that they get support and work as a team. Training restaurateurs in benchmarking practices will lead to increased productivity, higher profit and improved service quality. This will enable them to understand their operations so as to gain more competitive advantage in the industry locally and internationally.

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Biographies

Matildah Gumbo is a student at the University of Johannesburg. She is studying towards the master's degree in Operations Managements in the department of Quality and Operations management. Her main research interests are on the cost control measures or techniques that can help in the day to day running of a business. She has been in the restaurant industry for over 5 years and has been actively involved in the management position. She acquired a finance degree in Fiscal Studies at the National University of Science and Technology in Bulawayo Zimbabwe. Her future prospects is to open her own restaurant in South Africa since she have gained adequate knowledge on business management.

Prof Walter Musakwa holds a PhD in Geography and Environmental Studies from Stellenbosch University, South Africa, a Master's degree in Urban and Regional Planning from the University of Kwa Zulu-Natal, South Africa and a BSc in Rural and Urban Planning from the University of Zimbabwe. He is a former visiting research fellow of The World Academy of Sciences-German Research Foundation (TWAS-DFG), Member of The International Geographical Union (IGU) Commission on Geography for Future Earth: Coupled Human-Earth Systems for Sustainability, Member of the International Society of Photogrammetry and Remote Sensing, the African Association of Remote Sensing of the Environment and the Zimbabwe Institute of Regional and Urban Planners. He is an Editorial board member for the Geospatial Information Science Journal and Geography and Sustainability Journal. His main research focus areas are on the grand global challenges namely; environmental degradation, landscape change, climate change, ecosystem services, sustainable development and livelihoods in Southern Africa. A major focus of my research is also the use of earth observation and geographic information systems in comprehending the grand global challenges. He is also into geolocation-based services, volunteered geographic information, and their applications in developing countries. He is currently an Associate Professor in the Department of Urban and Regional Planning and Research Group Leader for the Future Earth and Ecosystems Group, University of Johannesburg, South Africa.

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