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## USE OF OPERATIONAL TECHNIQUES TO IMPROVE THE CONDITION OF HOSPITALITY INDUSTRY DURING ECONOMIC SLOWDOWN

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### ABSTRACT

*Hospitality industry is one of the most diverse yet specialized industries. The hospitality business is one of the major work-force utilizing businesses. If one looks at it from an international perspective, it is very important to understand that 'hotel' is a culturally bound event, because hospitality suppliers have a set of assumed ideology. They choose locations, food and staff according to the social codes. The hospitality industry offers various services. The major services are accommodation, food sector, tourism, recreation, entertainment, personal health and fitness, attractions, social events, meetings and conventions. The focus on the service provided in the hospitality industry is mainly on the customer. The current status of economic condition has affected the operations of business in various industries. Economic recession has hit the hospitality industry and the players like hotels, pubs and bars and restaurants. The effectiveness and the productivity of the whole industry is reduced due to the low demand from the customers. One of the major factors affecting the hospitality industry is the tourism industry. Because of the decreased levels of disposable incomes amongst the customers around world, the tourism industry growth has slowed down considerably. In the wake of the drastic economic slowdown it is very crucial to sustain the growth and quality of the product offered, if not*

*increase. This research paper discusses various operational techniques to improve the condition of hospitality industry.*

**KEYWORDS**–Economic Slowdown, Hospitality Industry, Operation Management, Sustainable Development, Tourism.

## **INTRODUCTION**

When we talk about hospitality, it is hard to have the same opinion on the size of the industry. The dictionary meaning of the word ‘industry’ is the sum of manufacturing enterprises, in a same area, performing similar operations and having similar customers. It is the area of an economy that comprises of companies in the manufacturing business.(thefreedictionary, 2011) To elaborate on this base in the hospitality industry is not that easy. There are various types of businesses that fall under this category, e.g. large resort hotels catering the leisure customers to small town low-spend business travel hotels. (Brotherton, 2003 )While the industry is large and diverse, businesses in it share many common things.(David K. Hayes, 2008)The term hospitality is related with the aspect of human activity which carries an important social and emotional requirement of shelter and comfort.

Hospitality industry is one of the most diverse yet specialized industries. The hospitality business is one of the major work-force utilizing businesses. If one looks at it from an international perspective, it is very important to understand that ‘hotel’ is a culturally bound event, because hospitality suppliers have a set of assumed ideology. They choose locations, food and staff according to the social codes.The industry offers various services. The major services are accommodation, food sector, tourism, recreation, entertainment, personal health and fitness, attractions, social events, meetings and conventions. (Principles of Management for the Hospitality Industry, 2011) The focus on the service provided in the hospitality industry is mainly on the customer. Other stakeholders like employees and the community members are not much emphasized upon. All the activities are purely customer oriented. Everything revolves around them only.

The basic need for all the segments in the hospitality industry to succeed in terms of reputation and profit is the customer turnover and their feedback. The customer is the king in this industry. If he is not provided something of his choice, he may opt for something else. This is a major factor in comprising the cost and the quality offered by the players in the hospitality industry. It requires strong focus on the services offered to raise the goodwill in the market.(Michael J. O'Fallon, 2006)

## **ECONOMIC CONDITION OF HOSPITALITY INDUSTRY**

The current status of economic condition has affected the operations of business in various industries. Economic recession has hit the hospitality industry and the players like hotels, pubs and bars and restaurants. The effectiveness and the productivity of the whole industry reduced due to the low demand from the customers. One of the major factors affecting the hospitality industry is the tourism industry. Because of the decreased levels of disposable incomes amongst the customers around world, the tourism industry growth has slowed down considerably. Because of that the demand for hotels and restaurants has decreased. In a generic sense because of the economic recession, the income of the customers decreased and consequently the spending power reduced. So they are looking to put aside as much money as feasible. To do that, the customers are purchasing more and more generic foods and preparing the meals on their own. Because of this food processing companies are becoming more and more inventive to reduce the cost of the products plus to attract more number of customers.(Food and Beverage , 2011)

To understand the effect of the economics recession and its effects on hospitality industry it is required to understand what hospitality management is. Basically it is the organization of industrial hospitality as the associated infrastructure of education and research that supports it. If we look at this definition in a broader sense and free from the industry context, hospitality management can be seen as the study of how it is managed between individuals, between groups and in the home or in different commercial and otherwise public perspective. Hospitality is something that hospitality industry provides and hospitality management is the management of hospitality. Now to get a more comprehensive look at the industry, it is very important to evaluate the fitness of the industry.

## **SUSTAINABLE DEVELOPMENT**

In the wake of the drastic economic slowdown it is very crucial to sustain the growth and quality of the product offered, if not increase. Talking about the food and beverage operations in particular, there is a need to maintain the service delivery in the adverse times by adopting various innovative cost and wastage reducing methods. Because it is the food and beverages industry that is very closely related to the hospitality industry. Wherever you find the word 'hospitality' there are good chances that food and beverages industry would be having some say in it. Food and beverages industry comprises of all the companies involved in the processing, packaging and distribution of raw food materials. This comprises of fresh prepared items and the packaged food items and alcoholic and non-alcoholic beverages. In a broader sense, all of the products which are meant for human consumption, except the pharmaceuticals. (Food and Beverage , 2011) It is easy to make number of distinctions between many different types of food and beverages outlets. There is a distinction between outlets that operate on commercial basis and those that are subsidized. Second distinction could be the market type. Third could be where catering is the main activity undertaken. A final one could be that of public ownership or private ownership. (Bernard Davis, 1998)

The food and beverages industry is classified into two divisions. 1) Production. 2) Distribution. The production division is again classified as a) processing of meats and cheeses b) creation of soft drinks, alcoholic beverages and package foods. The distribution involves the process of transportation of the finished food items to the customer. (Food and Beverage , 2011)

The main focus of food and beverages industry is on technology and mechanical manipulation of raw foods. By doing this the companies are able to add value their food. The leaders in the distribution area of this industry are the companies like SYSCO, US Foodservice, and McLane Company. In the processing sector because of the diversification and the growth, companies have started to get drawn-in in various markets. PepsiCo is a main part of the beverage and Frito-Lay brand, for food processing segment.

## **OPERATIONAL TECHNIQUES**

As the hospitality industry is hit by recession, there is a need for effective cost control and wastage removal techniques which reduce the cost still maintain the product and service quality. There are various types of operations in the food and beverages industry for achieving these goals. Some of them are as follows.

- Revenues and expense management
- Determination of sales forecasts
- Managing the rate of food and beverages
- Food and beverage production and price management
- Management of labor expense
- Developing a well-built marketing plan with accountability
- Managing the global dimensions
- Minimize wastage/pilferage
- Standardized output of Food and Beverage
- Reduce the time from order to service

(Lea R. Dopson, 2001) (Viswdeep, 2009)

The existing relationship between revenue, expense and profit is quite vital. These three areas are the bases of any successful operations. Revenue can be defined as income that is received by a company from its normal business activities which generally includes revenue from the sale of goods and services to customers. (Jan Williams, 2006). Revenue varies with the number of customer visits. One can increase the revenue by directly increasing the number of customers. Some of the basic examples of this is adding drive-through windows, increasing the operating hours and building more food service units. In the recession time, many innovative ideas are also required to increase the revenue like creative menu pricing techniques, discounts on very large purchases. Effective cost control combined with aggressive attitude for meeting the customer expectations can result in higher revenue and higher profits. The four major food-service expense categories are food costs, beverage costs, labor costs and other expenses. Divisions should be there in the costing system. So food costs should be compared with food revenues and the

beverages costs should be compare with the beverages revenues. Managing a budget is also a vital aspect of cost control.

Profit and Loss statement is a very important technology tool for a priceless assist to the hard work of the management. These are the basics for a good operation in any company and it is a must in the hospitality industry companies to fight the recession.

Another important concept is determining sales forecast. If hotels and restaurants know how much they want to produce and sell, they can reduce the wastage by stopping the non-required production. These forecasts include estimation of revenues generated, number of guests to be entertained and also the amount of money a customer would spend. Various tools that help this purpose are sales history and sales variances. After doing a thorough analysis of these two aspects the companies can increase their efficiency by reducing the number of items produced and minimizing the gap between the actual production and the required production. Digital Dinning is such a project which has been created by Menusoft Systems Corporation. Reservations, Table Management, Wait List Management, Labor Scheduling, Inventory, Gift Cards, and High Speed Credit Cards are its offering. (Garcia, 2011)

Another important tool for efficient operations is managing the cost of the food and beverages. It includes techniques and methods used to effectively purchase, receive and store food products. Various methods for successfully managing the cost of food and beverages include menu item forecasting, standardized recipes, inventory control, purchasing, receiving , storage, sales mix and technological tools. These are generic operational strategies which hospitality industry players need to apply in order to gain effectiveness. For example inventory control. The three questions sum up the answer of what is inventory control are, 1) What items should be stocked, 2) When should an order be placed to replenish the inventory and 3) How much should be ordered in each of the replenishments. (Sharma, 2006)Counting such inventories has been a very time consuming task. With the technological help now this process can be contracted and cost can be reduced for storing the inventories. The use of hand held computerized devices have been in use for speeding up this process. With the use of such methods the hospitality industry can increase its efficiency even in the time of crisis like recession. If they know what to stock, how

much to stock, when to replenish and how much to replenish, then they wastage can be reduced and costs can be cut down drastically.

There are various methods used in preparation of food and beverage products in a cost effective manner. The production process is drawn by considering the points to reduce spoilage and stop the theft. The production process is the most important of all functions. Production schedules, product issuing, inventory control, managing the food production area, employee theft and determination of actual and attainable products are some of the aspects of the management of food and beverage production. To reduce the cost, managers deploy techniques like 1) decreasing the portion size relative to price, 2) vary recipe composition, 3) adjust product quality and 4) achieve a more favorable sales mix. From this small number of options, the manager would select a strategy or a combination of strategies. (Lea R. Dopson, 2001)

Managing Food and Beverage pricing includes menu formats, factors affecting menu prices, special pricing situations and various technological tools to help out in this process. (managing food and beverage pricing, 2009) In the crunch economy, price of the product becomes vital in order to fend-off the competition and sustain the company's position in the market. Various pricing strategies, presentations, techniques and technological help related to pricing can help out a great deal. Various menu formats like standard menu, daily menu and cycle are useful tools in the process of pricing. Various methods can also be used to fight the credit crunch like coupons, value pricing and bundling.

Managing labor cost in dealing with the staff issues is vital in the efficient production. To have the right amount of food and beverages is important. The procedures for preparing them should also be known about the issues related to labor. In many of the hospitality companies the cost of labor actually exceeds the cost of product. Labor management deals with, 1) Maintaining a Productive Workforce, 2) Measuring Current Labor Productivity, 3) Managing Payroll Costs and 4) Reducing Labor-Related Costs. Factors that affect the productivity and which should be taken care of are. - Training, supervision, incentives, menu, breaks, morale etc. Interviews should be comprehensive, background checks should be done, training should be provided, proper supervision should be done and minimum service level desired should be set. If there are

problems found in the labor management, then they must be identified and proper action must be taken against them.

Developing a strong marketing plan is also very important. Many of the hospitality industry companies are not focusing on the marketing plan. When the economy is strong, there are ample of business opportunities for the companies. So the customer would come to the company rather than the company going to the customer. So at that time a weak marketing strategy may work. But when the economy is weak the company would suffer heavily with a weak marketing plan. So during that time the company needs to use various strategies like market research, banking on the operational process and consumer awareness programs to sustain in the industry.(Solutions, 2010)

Management of global strategies effectively is a very important aspect for cost control. Needs of global customers are different in different countries. If the company working in hospitality industry is a very big corporate unit working in various countries, it has to get accustomed to the culture of the host countries instead of making them comfortable about company's tradition. In the economic crunch time no one from the masses will be willing to try something completely innovative. Various reasons for monitoring and controlling costs may be as follows.

- People from the host country may not be qualified enough for the job
- There is a need to train people
- The need for instilling a universal perspective in the workforce
- The cultural understanding between managers and staff is in companies' long term interest
- International project is considered as a bases of your professional development method
- Issues related to real estate and otherwise that need management direction to correctly address the matter.

In the recession time, for the hospitality industry, wastage proves to be a huge adversary. There is no way a company can afford unnecessary use of resources when the credit is low and the cash flow is minimal. The company has to make sure that wastage is minimal so that the cost of producing is low and consequently the final price of the product is low. Because of that the customer will be willing to purchase something what is provided at a low price. For example

Wall-Mart is using cost leadership strategy to provide low cost every day for the consumer. This kind of strength can be generated by efficient supply chain and economies of scales. Coca cola is a similar example. It is able to procure raw material at a low pricedue to its huge resources. Using the foreign labor – outsourcing is another important strategy in this global economic crunch time. (Smith, 2011) McDonald’s ability to buy the land for the outlets is its cost strategy. Tight management control and tight product development strategy also helps McDonalds to keep the cost very low for their products. So in the economic crunch time it is still able to provide the quality product at low prices. Another method is to use fewer in-store manager. It helps McDonalds to hire cheap labor to finish the various tasks. Controlling the autonomy in the decision making also helps McDonalds avoid costly and unnecessary cost like betterment of the products or altering the operational processes.(xamples of Companies That Use Cost Leadership Strategies, 2011)

Standardizing the output of the service in the hospitality industry is another way to help the business sustain in the economic crunch. Standardization is the method of creating a technological standard, which could be a standard condition, standard test method or standard process. By using this method of production, the company is able to produce more as it takes less time. Because of that the time consumed is less and the company is able to rotate its resources quickly. The customization part has to be parted with, making a small number of customers dissatisfied. But in a larger context, by being able to reduce the prices drastically by reaching the economies of scale, the companies are able to keep the masses happy and the business sustainable in economic contraction.

Reducing the time from order to service is a subtle way to increase the profits for the company. A customer never likes to wait in long queues for his order to get completed. In any restaurant or a bar what any customer hates is waiting. By introducing automated technology for operational procedure at various points, the ordering time can be reduced drastically. Using the technology to increase the speed of ordering is a must in the economic downfall. Keeping the customer happy and making him come back again and again is important, because customer retention is easier than creating a new customer. So in the economic downfall the hotels and restaurants need to provide quick service and efficient service without compromising on the quality. That is one of the easier ways to sustaining the business.

## CONCLUSION

The world hospitality industry has suffered losses during the recent times due to economic slowdown. But it does not mean an end of the world for the players of the hospitality industry. With the adoption and changes of operational processes, the companies can sustain in the crunch time and in fact work smoothly. By adopting new technological processes, by managing cost, pricing and labor and by adapting to the cost cutting techniques the hospitality industry can take the hit and move forward.

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