

## A RESEARCH PAPER ON STUDY OF INNOVATIONS IN THE RESTAURANT INDUSTRY – ANEXPLORATORY STUDY

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### ABSTRACT

Due to increased urbanization and modernity, India's restaurant business has flourished in the last decade. This study aims to identify the key challenges present in the restaurant industry in India. A research was carried out for the study.

A comprehensive search in specialized database sources like EBSCOhost, Web of Science and Google Scholar were performed. After analyzing the articles and reviewing the restaurant industry constructs such as consumer perception and satisfaction towards restaurant, brand equity in restaurants, importance of nutritional value of food, organic food and healthy meals in restaurants, restaurant responsiveness towards marketing strategies, technology in restaurants, and food safety in restaurant industry are identified. This research takes a significant attempt by doing a review analysis to analyze the varied activities and challenges of management of restaurants industry.

**Keywords:** Restaurants, Innovations, Managers' Perception, Competitive Advantage, Hospitality Trends.

### I. INTRODUCTION

Is innovation in the restaurant industry a bare necessity or just a popular social topic? Is it something you talk about at work? If it is, have you already done something to amaze customers and to increase competitiveness? Many entrepreneurs start their business following a traditional retail approach; usually this turns to be a beginning of the end for that particular business idea. Restaurants must develop a modern approach with customers as the focus. Therefore, the authors suggest a set of required approaches as a framework to start innovation. Furthermore, this framework is useful for a wide range of service sectors, and should help managers and entrepreneurs understand global customer needs.

The main goal of the study is to identify attitudes of restaurant managers towards innovations as an adapting strategy, and to reveal their perceptions of future trends in the restaurant sector. Moreover, this paper examines linkage between socio-demographic profile of managers and type of applied innovations, and intends to initiate a further studies and discussions that could help academics and restaurateurs to predict and adapt to dynamic market changes.

### II. LITERATURE REVIEW

Changes in the restaurant market are constant, and mainly happen silently. These changes are driven by demographic evolution, modern buyers' needs and they are also affected by the global economic crisis. Due to the invisibility of these market changes, most retail companies miss chances to gain and/or retain competitive advantages. Companies which miss these opportunities often face a decrease in market share. The lost of the market share also reflects a decrease in number of both regular and non-regular customers, a slow speed turnover, smaller profit, further economic disadvantages and low service quality. When these companies become aware of such a situation they are usually unable to follow market demand without time-consuming in-depth research and significant investments. On the other hand, more proactive market oriented companies can benefit from adaptive concepts and well-timed business decisions. Moreover, being able to recognize a beneficial course in the market, companies will be able to maintain their market position with investments that should not be significantly higher in comparison to those previously made.

Modern consumers and their constantly changing lives require a prompt response and service tailored according to their needs.

Changes are fast and in ten years' time hospitality retail companies can develop from small company to one of the world's largest restaurant chains (Taco Bell), or from a tiny coffee shop chain from Seattle to the world wide

recognized company (Muller, 1999). In economic uncertainty, the best business opportunities will belong to those who can come up with new and better business ideas – ways to create, deliver and then capture value.

The restaurant sector is facing enormous and dynamic market changes. It is specific sector due to many factors that influence customers' perception of experience, and therefore innovations in this sector is a complex and multidimensional procedure.

Retail companies often make significant efforts to innovate their business activities, organizational processes, products and services in order to achieve revenue and market share growth. In accordance to this, sales management also has to change, especially in terms of sales force selection, staff training, and motivation/reward. Most retailers expanded their focus from selling products and services to engaging and empowering customers, with the ultimate goal of creating a rewarding customer experience. Some authors state that in the operations area, much of the innovations and cost savings have already been achieved, and that it is hard to be innovative unless the focus is on business model innovation. In addition, it is important to come up with innovation in areas where major competition does not act (Pohle, Chapman, 2006; Leskiewicz Sandvik, Sandvik, 2003).

### III. INNOVATIONS: MULTIPLE-CHOICE

Innovations in business can be achieved in many ways, mainly (1) by adding novel activities (through forward or backward integration), (2) by linking activities in novel ways, or (3) by changing one or more parties that perform any of the activities (Amit, Zott, 2012). Which way a company will choose depends on its aims, the available financial, technical and human resources, the market environment and partly on government policies. However, it is advisable to involve all departments (within a company) and stakeholders in process of generating new ideas. Some of the great innovations can be based on an idea that comes from customers, employees at low hierarchical level or from suppliers. On the other hand, it is useful to follow leaders on the market and their good example of how to stay relevant among competition. Hjalager (2010) classifies innovations into the following categories: product innovations, process innovations, management innovations (innovation related to human resources, i.e. training methods, staff empowerment, etc.), and logistics innovations. Some authors (Iorgulescu, Sidonia Rvar, 2013) recognize marketing as another type of innovation in the hospitality industry which brings new perspectives in the relationship between employees and customers. However, innovation in pricing is rarely discussed although it can be a source of competitive advantage and an opportunity for value capture (Hinterhuber, Liozu, 2014).

A decade and a half ago Muller (1999) predicted three dominant trends in restaurant sector: (1) identification of restaurants as custom retailers of time and customer experience, (2) differentiation, and (3) transformation into a knowledge-based systems. Unlike other retail sectors, restaurants are specific by many determinants. In terms of innovations, they must be approached from numerous perspectives, such as price- management, human resources, customer satisfaction management, food safety management, marketing, architecture and design, ecology, etc. They represent places where people go to eat, to socialize, to do business, and at the same time to buy a unique and a valuable experience. A key for providing a unique experience in the restaurant sector relies on flexibility. It means that managers must leave a traditional business models and adopt new management and supervision styles in order to develop empathy with each individual customer.

The increased adherence to the modern approach in the restaurant sector is evident. In Mexico the total share of food and beverage sales through modern style stores rose from 50% in 1999 to 60% in 2007, and it reached 65% in 2012 (Bolio et al., 2012). However, the majority of Mexico's retail workers in the food sector are employed by traditional stores. It can be a clear signal that technology is gradually replacing human labor in the restaurant industry, from street kiosks to fine dining establishments.

Innovations in the restaurant sector appear as conceptual solutions in five main areas: Design and atmosphere (e.g. interior and exterior appearance, colors, music, etc.), Food and beverages (e.g. portion size, new ingredients, allergen free, etc.), Technology application (e.g. PMS, POS terminals, online reservations, smart phone applications, social media, etc.), and Responsible business (e.g. ethics, eco-friendly packages, waste recycling, etc.).

Many authors (Hotho, Champion, 2011; Zhang, Li, 2010; Sigala, Kyriakidou, 2015) state that innovations and creativity represent crucial factors for success in a highly competitive market in the future, especially in

multicultural environments (Liu, Jang, 2009). Additionally, innovation can be directed towards human resources (customer orientation, service climate, etc.) with emphasis on customer orientation policy. Human resources are very important to the hospitality industry, since competency of manager and employees can affect innovations and future of the company in general. This is of a high importance because perceived service quality positively influences customer continuance and loyalty.

#### IV. RESEARCH METHODOLOGY

The study relies on research into full-service casual dining restaurant managers (n=74). Managers were interviewed in person after they had been explained how to form their answers correctly. The managers were asked to rank the most important areas of innovation by allocating the points (1=least important, 5=most important), to reveal recent innovations of their company and to forecast dominant trends in the restaurant sector in the next 10 years. Additionally, they were asked to fulfill short questionnaire in order to acquire socio-demographic data.

#### V. RESULTS AND DISCUSSION

In order to examine differences in managers' attitudes, it was performed a socio- demographic analysis in the first place (Table 1).

**Table 1.** Socio-demographic profile of respondents

<b>Gender</b>		<b>Education</b>	
Female	4.6%	High school	50% Bachelor or Diploma
Male	95.4 %		45.4%
			Masters Degree 4.6%
		<b>Experience in hospitality</b>	
		1-5	18.2 %
		6-10	61.4 %
		>10	20.4%
<b>Age</b>		<b>Professional education in hospitality</b>	
21-30	11.3%	Yes	29.6%
31-40	66%	No	70.4%
41-50	22.7%		

Source: Representation by the authors based on SPSS

The results of socio-demographic analysis reveal the following important facts: (1) most of the restaurant managers are younger than 40 years (77.3%), (2) half of them (50%) have only high school education, (3) majority (70.4%) of all managers do not have professional education in hospitality.

Led by their experience and feedback from customers, the managers ranked the most important areas of innovation in the restaurant sector. The results are shown in Table

**Table 2.** Managers' perception of the most important areas of innovation

Innovation areas	Points allocated (average)	Rank
Design and atmosphere (e.g. interior and exterior appearance, colors, music, etc.)	25.8	3
Food and beverages (e.g. portion size, new ingredients, allergen free, organic food, etc.)	35.4	1
Technology application (e.g. PMS, POS terminals, online reservations, smart phone applications, social media, etc.)	23.2	4
Responsible business (e.g. social responsibility, eco-friendly)	18.0	5

packages, waste recycle, etc.)		
Human resources (customer orientation, service climate, etc.)	29.6	2

Source: Representation by the authors based on SPSS

The results are somewhat as expected regarding Food and beverages (Ranked as No. 1), and surprising regarding Technology application (Ranked as No. 4) and Responsible business (Ranked as No. 5). Human resources were ranked as No. 2, and Design and atmosphere as No. 3. Changes in Food and beverages area are global, constant and dynamic. According to the research conducted by the specialized internet site Restaurant.com, 64% of restaurants noted an increased demand for healthy options, and 80% said that they would add healthy menu items in future, as well as new items (85%) (www.qsrweb.com). Other studies also support the fact that the major changes demanded are within the Food and beverages area. Best (2014) emphasizes some of the major trends: smaller-flexible portions, new tastes, local food – usually named hyper-local or micro-local, vegetarian options, probiotics enriched food, and gluten free dishes.

The last two areas of innovation on the list could reflect a poor manager’s profile in terms of education and experience. In previous studies (Ivkov et al., 2014) it is found that restaurant managers do not perform research on customer needs often enough and appropriately. Moreover, they struggle with product or service innovation.

**TRADITIONAL VS MODERN APPROACH**

Based on the interviews conducted, and extensive literature analysis, the comparison of traditional and modern/required approach for the restaurant sector is presented in Table 3.

**Table 3.** Comparison of traditional and required restaurant business approach

<b>Traditional approach</b>	<b>Required/modern approach</b>
Sales oriented	Customer oriented
Lack of external communications	Strong external communications (websites, social media, mobile phone applications, etc.)
Selling meals and drinks	Selling experience
Reactive activity and product based experience	Proactive thinking and value based experience
Not interested in market research	Anticipation of market changes and trends
Almost constant menu items	Fast changing menu items
Lack of social responsibility	Social responsibility
Unsustainable development	Sustainable development
Standardization of services	Customization/personalization of services
Manager in focus	Team in focus
“If you do not like do not buy it” philosophy	“Tell us how you like it” philosophy
One or few people included in development of a new product or service	All stakeholders included in development of a new product or service
Almost none after-purchase customer care	After-purchase customer care

Source: Representation by the authors based on literature review and personal experience

Our research suggests that most of the examined restaurants still have a lot of traditional approach elements incorporated in business activities and policies. By switching to the modern approach, companies can become market leaders and positively affect profits and customer satisfaction. However, switching to modern approach

does not mean necessary abandoning all traditional values, but offering them in a different way.

## VI. FUTURE SEEN BY MANAGERS

Prior to asking for future trends and predictions, we wanted to examine on what managers ground their opinions and strategic decisions. Two main categories were experience and competitors' advances. Moreover, none of the interviewed managers read published scientific papers related to hospitality industry, and only 16% of them occasionally check online results of relevant surveys conducted by Chamber of Commerce or similar institutions. This situation can be overcome by more frequent market research and a constant desire to learn since education positively affects attitudes towards innovations (Quazi, Talukder, 2011; Jaspersen et al., 2005) on In other words, managers have to find a way to reach out to customers and get necessary feedback – to create a relationship. If not, it can affect profit, future sales and company reputation.

Answers regarding dominant trends in the restaurant sector in the next 10 years are classified into the categories:

- Customized service (New value based experience): 86%
- Focus on local food and wine: 84%
- Social media to connect and communicate with customers: 80%
- New and healthy menu items: 75%
- Technology application: 66%
- Quick service/Fast food: 64%
- Menu for kids and families: 61%
- Staff education: 48%
- Waste recycle: 27%

Few restaurateurs mentioned the problem of customers who smoke due to law restrictions, and those who come with kids and babies: "We have to work out how to attract smokers; they represent a huge market share and we want them back",

"The problem is that families often come with young kids and babies and at the moment we do not have adequate menu items for them. I believe that we can make a significant step forward if we innovate in this field".

## VII. CONCLUSION

Innovations serve to help survive on the market, to improve processes and products and to upgrade business concepts. Despite the uncertainty of the return of investments, severe competition leaves no choice.

The results generally indicate a lack of creativity and innovative ideas among the managers. The main reason for that could be found in absence of professional education, a low level of general education, a young age, and lack of experience. Additionally, managers do not conduct surveys among customers often enough.

Most restaurants struggle with being innovative and have difficulties coming up with fresh ideas continually, especially ones that customers are willing to pay for. Therefore, managers must consider the significance of staying competitive by prompt response to customers' demand. It would be very useful for organization leaders to stay informed about the global trends through scientific papers and similar published researches.

The success of innovation lies in a corporate culture where every employee can think big and express creativity, and in the involvement of other stakeholders, especially customers, in the process of innovation. Finally, in the highly competitive and dynamically changing restaurant sector, managers' proactive behavior and ability to create a unique experience with personal signature on it will be crucial. Being able to offer value based customized service may define who will stay competitive and profitable.

## VIII. IMPLICATIONS AND LIMITATIONS OF THE STUDY

The results of the study are interesting for practical reasons. From a theoretical point of view, these results seem to show that the personal profile of a manager, particularly age, education level and experience, are associated with the type/area of innovations. Studies that examine linkage between socio-demographic characteristics of restaurant managers and the area of innovation are scarce in the literature. Additionally, it



would be interesting to examine attitudes of more female restaurant managers and the reason of small number of female managers in the restaurant industry in the first place.

From a practical point of view, it is suggested that socio-demographic profile of managers can indicate and predict the direction of current and future business activities, and therefore the owners should watch who they employ. Most importantly, managers should conduct surveys among customers regarding their expectations on regular basis in order to create practical strategies to improve their service to the customers (e.g. ability to customize dishes) and increase profits. Positive correlation between aforementioned marketing activities and business success was found by many authors (Agarwal et al., 2003; Sin et al., 2005; Leskiewicz Sandvik, Sandvik, 2003). Moreover, they should stay well informed about the trends within the industry by following relevant publications or through contact with faculties, educational centers and similar institutions and associations and facilitate the innovation process in that regard. Before beginning major innovation programs, managers may need to think about internal capability, staff training and collaboration with external partners (faculties, suppliers, distributors, customers etc.). Several social implications can arise from applying innovations in the restaurant industry. Promotion of healthy menu items might affect public health and therefore quality of life. Food, materials and energy waste reduction, as a part of environmental issues, could help restaurateurs to become recognizable for green practice and social care. Although this study offers valuable insights into managers' attitudes towards innovations, it still has some limitations. First, the study was conducted only with full-service casual dining restaurants and the generalization of the results to other hospitality outlets or service industries may be limited. Second, attitudes may vary across cultures and therefore future research is needed to examine these findings.

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