FOODSERVICE COST CONTROL PRACTICES: ISSUES AND RECOMMENDATIONS

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Abstract- Little research has been done in understanding cost control issues, particularly in the case of foodservice outlets in Malaysia. This paper addresses cost minimization via imposing cost control measures through daily operations. Specifically, issues regarding controlling of foodservice costs are the prime concern in the paper. An exploratory study is deemed feasible to investigate cost control measures being practiced in foodservice daily operationsas limited information is available in addressing this issue. Whether the foodservice outlets ever practice control measures and also what are cost control practices being applied needs investigation. Other issues includes factors affecting selling prices and problems that these foodservice outlets encounter in terms of instituting controls measures. Thus, recommendations are being forwarded to overcome and minimise these problems. Qualitative approach via structured interviews were being conducted on 30 foodservice outlet managers around the northern part of Malaysia. The findings revealed that the majority of managers acknowledge that there are awareness on cost control measures in their daily operations, however these are based on the routine experience of running their operations. It is seen that the implementation of control procedures are still unbalanced and require improvements. Thus, there is a need to cultivate the correct application of cost control measures in foodservice outlets' operations in terms of appropriate trainings and cost control courses.

Keywords- Cost Control, Foodservice Outlets, Selling Price, Control Problems, Control Recommendations

I. INTRODUCTION

Malaysia's foodservice industry is in the midst of expansion and attracting more diverse consumers. This has led to a more competitive environment which resulted in attracting and retaining consumers in the foodservice service outlets being more challenging. Profit maximisation is always a key concern for all operations. One way is through minimising and controlling operations costs. Minimising costs are actions that can be taken by the operation which do not involve outside factors (Brown, 2003, Brown, & Lewis, 2003). According to Riley (2005), food cost and control is an activity that looks easy but hard in practice. As competition in the foodservice industry is getting intense, there is a growing need to understand how foodservice outlets make profits that is via cost control measures. Little research has been done in understanding cost control issues particularly in the case of foodservice outlets in Malaysia.

This paper aims to investigate whether the foodservice outlets in Malaysia practice cost control measures in their daily operations. And if they do, what are the control measures being applied. Issues on factors that foodservice outlets consider in setting up selling prices are addressed in controlling costs.

In addition, the problems that these foodserviceoutlets encounter in terms of instituting controls measures in daily operations needs further exploration. Thus recommendations can be forwarded to minimise these problemsto suggest corrective actions to be made if necessary to retain and maximise profits in the long run.

Hence, this study embarks on the following objectives

i. To identify cost control measures being practiced in thefoodservice outlets' daily operations
ii. To determine the factors determining selling prices in these outlets
iii. To investigate the problems these outlets encounter in terms of food cost control
iv. To suggest ways to overcome the control problems encountered by these outlets

II. LITERATURE REVIEW

Foodservice cost control is the process whereby managers attempt to regulate costs and guard against excessive costs in order to keep costs within acceptable bounds, to account for revenues properly and thus make profits by focusing on the particular methods and procedures(Ahmed, 2005, Arduser, 2003).Control, being an important component of management function; is defined as a process used by business operators to direct, regulate and restrain the actions of people in order to achieve the established goals of a business (Mohsin, 2006). It is a continuous process that involves every step in the chain of purchasing, receiving, storing, issuing and preparing foodservices for sale, as well as scheduling the personnel involved (Dopson, Hayes & Miller, 2008).
Cost is defined as the expense to a foodservice establishments for goods or services when the goods are consumed or the services are rendered (Dittmer & Keefe, 2006). Control means exercising governing power over events and situations such that an outcome can be achieved or presented (Dittmerr & Keffe, 2006). In the foodservice industry, control

means controlling people rather than things as the hospitality industry depends heavily on human resources, since employees represent a costly and often uncontrollable resource (Cheng-Hua, et al., 2009). The ultimate objective of cost control is to eliminate excessive costs for food, beverage and labor to ensure that the establishment will operate at a profit hence each stage of the foodservice operation should institute control. Among the advantages of imposing control measures are having low labor turnover, more effective and efficient operation system which ultimately lead to financial success in the long run.

There are a variety of ways to institute control in the foodservice establishments. The particular techniques selected for use in a given situation depend on the nature of the material or service requiring control and on the degree of difficulty inherent in instituting such control. Some control technique include establishing standards, establishing procedures, training employees on the proper ways to institute control measures, the management setting examples, observing and correcting employee actions, requiring records and reports, disciplining employees and preparing and following budgets (DeFranco & Noriega, 2000).

Later, Dittmer & Keefe (2008) further supported DeFranco and Noriega's suggestion by stating that the control process consists of four steps which are establishing standards and standard procedures for operations, train all individuals to follow established standards and standard procedures, monitor performance and compare actual performance with establisehed standards and finally take appropriate action to correct deviations from standards. On the other hand, pricing is one of the critical points in developing competitive strategies to ensure organization's competitiveness (Naipaul & Parsa, 2001). Price can be defined as an amount of money for anything that is bought, sold, or offered for sale. To consumers, price is an expense that incurred in purchase transaction (Raab & Mayer, 2009). Setting up food and beverage prices will affect operation cost as it depends on different external factors such as competition, service levels, product quality, o[portion sizes, etc. Moreover, there are different methods in setting up prices to be offered in order to maximise profits.

According to Mohsin (2006), there should be internal control to prevent employee thefts and other related operations. Internal control involves accounting measures and all matters relevant to operational efficiency of business and administrative controls in general. Further, Mohsin (2006) mentioned physical protection of assets which is to keeping assets under lock and key or in a safe and assets and inventory count on regular basis discourages theft attempts.

Problems Encountered in Food Cost Control

There are several problems in practising control measures. According to Mohsin (2006), among the problems are reluctance to practice internal control as such practice can impact the moral of staff in terms of trust. Furthermore, they feel that the practice would cost them more compared to the cost of theft. Further, some operators are not able to design relevant policies, procedures, and record keepings into their business operation due to lack of knowledge on internal control procedures and benefits. Lack of resources is another matter as effective internal control requires investment in the computerization, system and security camera. There are also issues of lack of time as effective internal control requires employees to learn how to use the system and maintain the internal control process diligently on regular basis. Issues on lack of compliance also arises as most establishments do not implement and follow the policies and procedures for internal control despite having the guidelines (Mohsin, 2006).

III. RESEARCH METHOD

This study will explore whether the foodservice outlets in Malaysia do practise having cost control procedures in their daily operations and if they do, what are the cost control practices being implemented. Further the factors determining selling prices in these outlets are also investigated. This study will also determine the problems in implementing cost control measures. Control issues are less researched thus this gave rise for an exploratory study to be considered. A qualitative approach via structured interviewsis applied as rich data need to be gathered to answer the research questions. Sample of the study are foodservice outlet managers. Data was collected during March until May 2013 and content analysis was conducted as the data analysis means.

IV. FINDINGS AND ANALYSIS

30 respondents consists offoodservice managers or owners were interviewed with each interview lasted between one to two hours. The foodservice establishments were profiled as seven franchisees, four chain restaurants and 19 sole proprietory premises. Three main structured questions were being asked together with the background of the establishments. The following are the descriptions of the answers given to answer the research objectives.

The first research objective is to investigate whether the foodservice outlets practice cost control measures in their daily operations. It was found that in majority all of the foodserviceoutlets understand the meaning of "cost control" and mentioned having some kind of cost control practices at hand in their daily operations eg; FIFO methods, assigning specific person to oversee storage area, etc. However, some of them do

not posit a clear understanding on the cost control practices and procedures. Franchise outlets do obtaintheir own standard operating procedures in terms of cost control processes as being set by the franchisor which comes with the rules that these franchisees need to comply.

Majority of respondents mentioned that purchasing activities are controlled based on previous normal sales trends, food cooked to order, standard recipee, etc. A la carte outlets seemed to have a more standardised list of items to be purchased as the menus are set beforehand as compared to restaurants which serves rice and different kind of dishes. Secondly, most of the outlets also indicated that they have internal operations control in terms of storing and issuing practices. This comprise of checking and receiving correct quality and quantity of items ordered via purchase order. They also have a proper storage although they vary depending on the size of establishments, and some been labelled. Standardised recipee was being used as a guide to control raw items to be purchased. In addition, standard weights and measures are also applied when serving and portioning as a means of controlling food cost items. Another theme was staff training whereby proper training were given to staff from time to time. This is apparent in franchise and chain outlets as these outlets normally have standard procedures of controlling food, beverage and labor costs.

Operational daily practices

This consists of the normal operations practise being applied daily in these foodservice operations. This include comparing foodservice order receipts with cash sales received, having a closed-circuit television (CCTV) in place especially at the cashier counter, counting petty cash float balance whether matching the opening and closing operations, customers themselves pay at the cashier counter for certain outlets, comparing invoice with amount charged for credit card payments, etc. The point-of-sale (POS) system is also utilised especially for franchise outlets as a means of controlling sales and receipts. There is also other strong internal control proceduresset by franchisors in terms of ordering, receiving, storing, issuing and food preparation.

Factors Affecting Selling Prices

Based on respondents' feedback, there are five themes emerging from the interviews to answer the third objective. They are increased or unstable cost whereby they mentioned that prices depend on teh availability of raw materials, or renovations being made, labor costs and other operating costs. Next is the guest type for instance if they are students, the prices will be slightly low as compared with locals due to different income groups.Competition from surrounding outlets also affects priceson food and beverage offered. Further, the location of each outlet will also influence food price for example whetehr near to competitors or vice versa. Lastly is the quality of food served will also affect the price in terms of the ingredients used, nutrition, hygiene, etc.

The next question to answer is to determine the problems thefoodserviceoutlets encounter in terms of food cost control.There were a number of themes that emerged. The themes identified are unstable cost of raw materials, insufficient working personnel, storage issues, pilferage issue, wastage problems, unstable customer demand and other issues. These themes are explained together with the feedback given by respondents in Table 1 as follows:

Table1: Problems that Foodservice Outlets Encounter in Terms of Food Cost Control

Theme	Feedback Given by Respondents
Unstable Cost of Raw Materials	"There is high or rising cost of raw materials especially sea food"
Insufficient Working Personnel	"Employee turnover is high...which results in having to train workers each time they first start work"
Storage Issues	"Improper training to workers on storing materials"
Pilferage Issues	"Employee theft is not uncommon in the operations, and it is difficult to control".
Wastage Problems	"There are sometimes remaining unused raw materials"
Unstable Customer Demand	" Customers patronising the restaurant are not consistent"
Other Issues	"Customers did not pay and just walk away"

The final question seeks to recommend the ways on how to overcome the problems faced by foodservice establishments in their daily operations. The most important recommendation is to have a standard internal control procedure to follow in daily operations in terms of purchasing, receiving, storing, issuing and preparing foodservices for sale, as well as scheduling the personnel involved.This SOP is then narrowed down to having more stringent policies in every aspects of the operation cycle such as comparing the quantity and quality of raw materials purchased are consistent, having a proper and sufficient storage area and labelling, following FIFO method when issuing raw materials, checking the stocks regularly, following SOPs when preparing food and beverages.

In addition, the process of recruiting the right personnel should be taken seriously to minimise high

employee turnover and also essential to filter honest workers. Trainings should be provided on a regular basis and job rotation should be implemented so that the workers are multi-skilled. The implementation of scheduling variations and proper measure of labour productivity will enhance appropriate labor cost control. Cash and revenue control need to be properly monitored in terms of internal threats and external threats, especially focusing on minimising pilfirages.
Franchise outlets are seen to follow standard operating procedures in terms of cost control processes, following requirements set by the head quarters. Further, the suppliers are being set by main office as well. Most of the outlets mentioned FIFO and LIFO practices being applied in their operations. Some mentioned storage areas are being controlled by an assigned person or the manager himself in order to prevent pilferage among staff.

However, a few of these outlets are not so clear on the cost control practices, just some general rational thinking way of having cost control measures in operating their business.Some even has merely mentioned that they follow cost control practices however were not sure to elaborate when being asked further. This shows a sign of misunderstanding or unclear on what cost control consists of or really means.

In terms of cash control, majority mentioned it is always the owner or manager who closes the business and bank in the sales monies the next morning. POS system was being used in certain outlets as a controlling measure. Training of certain staff to handle cash and credit cards are also reported which coincides with internal control measures at hand. Others also applied the application of CCTV in most premises as a monitoring device. All these measures supported Mohsin's (2006) stance. The problems addressed such as insufficient working personnel, storage problems, and pilferage all relate to lack of compliance in instituting internal control.

DISCUSSION AND CONCLUSION

This exploratory study which was conducted qualitatively has surpassed some issues on the need of cost control measures to be apprehended in the daily operations of foodservice outlets. It was found that awareness on cost control measures are acknowledged, though needs further enhancement. However, the implementation on the control procedures are still unbalanced and require improvements.This study has surfaced the need to cultivate the correct application of cost control measures in foodservice operations. Trainings and courses on cost control issues need to be introduced to these foodservice operators to enhance their understanding of the critical need of instituting control measures to maximise profit in the long run. Recommendations made have suggested that following proper cost control measures will enhance the profitablility of the foodservice operations in the long run.

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