

## **Exploring innovation strategies that affect business performance in restaurants**

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### Abstract

This paper presents the initial results of a study exploring the nature of innovation in high performing restaurants and its role on business performance. Based on interviews conducted with restaurant professionals in Australia, innovation is evident across all aspects of running a successful restaurant. Restaurateurs source innovative ideas from a range of food media and consumers direct. An organisational culture that values innovation is critical to ensure successful performance of a restaurant. The outcomes of innovation include a variety of benefits to a restaurant business.

## **Exploring innovation strategies that affect business performance in restaurants**

### **Introduction and Literature Review**

This research investigates the nature of innovations in restaurants and the affect on restaurant performance. The necessity for restaurants to retain competitiveness by being innovative has been well noted, mainly from a menu perspective (de Brentani, 2001; Lin & Chen, 2007). Innovation processes in restaurants have been shown to reduce the propensity for failure in an industry which typically has high levels of competition (Parsa, Self, Njite & King, 2005). What has not been so well established is the range of innovation that takes place in restaurants and what innovations actually contribute towards the performance of the business. This paper presents the first phase results of a study conducted in Queensland, Australia which aims to address these issues

In the restaurant context innovation is defined as, “an idea, practice, process, or product that transforms a new problem-solving idea into an application and is perceived as new by an individual” (Ottenbacher & Gnoth, 2005, p. 206). Innovation is further defined as anything new that a restaurant does, irrespective of whether it is brand new to the industry, reproduced from competitors or adapted from existing products or services (Johannessen, Olsen & Lumpkin, 2001; Linton, 2009). Previous innovation research has noted two key forms, typically referred to as ‘incremental’ and ‘radical innovations’, both of which have various degrees of importance for businesses (de Brentani, 2001; Lin & Chen 2007). Radical innovation implies a major and fundamental change to the business which can achieve substantial competitive advantage (Lambe & Spekman, 1997). Incremental innovation incorporates gradual growth, often resulting from new technologies, and is mainly based on new features, benefits and improvements to existing products or services (Damanpour, 1996; Garcia & Calantone, 2002). Incremental ideas have the disadvantage of yielding little return, but the advantage of less effort or risk and are more likely to fit into the culture of the business (de Brentani, 2001). Bhaskaran (2006) states this style of innovation is cheaper and faster to initiate than radical innovation with the potential for a variety of degrees of competitiveness and profit.

Research specifically focussed on innovation in the restaurant industry has identified that innovation allows restaurants to make themselves more attractive to customers and consequently increase profitability (Ottenbacher & Gnoth, 2005). One of the few research studies to focus on understanding how high end restaurants achieve innovation was conducted by Ottenbacher and Harrington (2007). They interviewed ‘Michelin Star chefs’ about their procedures for planning, developing and delivering innovative restaurant menus in the context of fine dining. The research contained a variety of stages starting from the conception and planning of the dishes on the menu (i.e. idea generation) through to their final presentation as they are served to the customer (i.e. commercialisation). The concept and planning technique is a useful tool which highlights the type of process menu innovation should pass through to ensure success.

Most innovations that take place within restaurants are related to the menu, which is a key component which entices potential customers to dine in an establishment. The compilation of menus involves many innovative techniques that can be used to attract customers’ attention to food. Stierand & Lynch (2008) state the compilation of dishes within menus is an example of the development of an innovation product process which, with minimum changes, can be transformed into a service process. Avlonitis, Papastathopoulou & Gounaris (2003) suggest the process for ‘new service development’ is of a very similar nature with the use of business

analysis, marketing strategy and technical development as slight variations. Ottenbacher (2007) believes that new service development has been based on new product development research. This ultimately means that restaurants cannot purely exist in the marketplace by concentrating on menus only, which more importantly suggests other innovations should be explored more expansively than existing studies have done.

There are four significant sources of innovation according to Ottenbacher & Gnoth (2005), namely innovation of the product or service; marketing innovations; process innovations; and lastly, innovations pertaining to the organisation and its culture. Whether it is service or product innovations the motivations behind implementing them are to increase market share, create customer loyalty and display a competitive advantage against rivals (Atuahene-Gima, 1996). Organisational innovations are linked to a variety of changes within businesses such as marketing, purchasing, sales, administration, management and the role of H.R. on staff (Avermaete, Viaene, Morgan & Crawford, 2003). The key success factor in service innovation is the employee's interaction with customers and conveying their expertise and enthusiasm (de Brentani & Ragot, 1996; Ottenbacher & Gnoth, 2005).

While recognising how restaurants achieve innovation and the processes used to innovate is important, understanding the full range of benefits achieved by restaurants due to innovation is also needed to assess the effects on business performance. Measuring the effects of innovations on organisational performance is complex, as there are many criteria that can be used, each related to specific end results (Craig & Dibrell, 2006; Man & Wafa, 2008). In general, organisational performance is measured through the use of efficiencies, effectiveness, growth and productivity.

Given the lack of empirical studies focussed on understanding the broad range of success factors and innovations considered essential in successful restaurant businesses, this research addresses the following key questions:

1. What forms of innovation are evident as key elements of high performing restaurants?
2. What are the performance outcomes associated with innovation in restaurants?

## **Method**

The study was conducted using a qualitative, constructivist perspective based on grounded theory methodology. The use of grounded theory methodology enables the study to explore emerging themes to gain an understanding of a conceptual framework rather than pursuing a hypothesis model (Glaser, 1992). As such there is no need for specific research hypotheses, but rather two research questions are proposed as previously noted.

Data collection for the first stage of this research was based on case studies of restaurants considered to be high performing in South East Queensland, Australia. The restaurants were chosen based on a purposeful sampling method, whereby to be deemed as 'high performing' they had to have been in business for more than five years and have won Restaurant and Caterers Awards of Excellence in Australia. These awards signal that the restaurant has been recognised as successful by industry leaders and their peers. The rationale for these criteria was to ensure that the restaurants were well established with a strong customer following. The advantages of multiple case studies lies in its ability to focus on key themes associated with the premises and the participants in the various establishments.

Within each case study, data collection was primarily based upon interviews of several key personnel in the restaurants, using open-ended questions to encourage data to be obtained

from participants that was unique and unbiased. Open-ended questioning was used to avoid leading the interviewee's to discuss specific key areas of interest to the researcher. The interviews were conducted at a location of the interviewee's choice, usually at the restaurant, which also allowed direct observation of the premises by the researcher. Each interview lasted between 45 to 90 minutes and access to documentation such as menus, awards, customer feedback, internal policies and media were made available as supporting evidence.

## **Findings & Discussion**

For each case restaurant a digital recording of the interview was made to ensure original data. A transcription of the recording was produced to enable the researcher to reflect on the points of interest raised by the interview. From these transcripts, a manual coding process was used to identify key themes related to restaurant innovations and business performance. The results presented in this paper are compiled under the general headings associated with Ottenbacher & Gnoth's (1995) sources of restaurant innovation and presented into sub-themes based on the results of the interview data.

### **Innovation (products and services)**

#### Menu Development

After the data collection was completed it was apparent that all case restaurants achieved most of their innovations through menu developments. This was emphasised by interviewees stating that their restaurants incrementally changed the flavours of dishes. In most cases the fundamental dish remained the same, but ingredients were removed or added to stimulate the aesthetic look and slightly change the taste of the dish. This incremental change allowed customers to experience something new and interesting, while at the same time keeping the main focus of the dish. This approach in producing dishes allowed creativity within the kitchen domain, offered potential profitability, and reduced stress levels from the pressure of producing a unique dish. For regular and prospective customers it maintained consistency within the concept of the business. The marketing manager stated, "it is essential that menu changes do not confuse the customer about what the restaurant stands for, but ensures business growth linked to customer demands" (Restaurant C, 2011).

#### Menu inspirations

It was evident within this research that the selected restaurant businesses strictly used incremental forms of innovation within their menus. These changes were inspired by media, books, magazines, food exhibitions and the write ups for restaurant awards. Being too controversial with tastes was noted as sometimes having a detrimental effect on a local following who dine in a restaurant with preconceived perceptions of the food. One chef/owner stated, "my customers trust me with consistent freshness of the produce, but I have to be careful with the combinations of food, as they are set in their ways based on the way we have always cooked" (Restaurant A, 2011).

#### Local Products

Menus varied in each restaurant, although they were generally of a similar style. The menus in this research displayed a variety of techniques to maintain a point of difference from one restaurant to another. Some supported 'specials of the day', while others sourced boutique farmers that bought a selection of fruit and vegetables to the premises on a daily basis. Using food products that other restaurants were not using was noted as an innovative advantage. This was especially effective when devoted clientele had total faith in the creativity of the

chefs they followed. One chef/owner stated, “I constantly get phone calls from butchers and fishmongers wanting me to take cuts that are not selling. But I am lucky as I have a following who [that] are prepared to try my creative dishes, which is good for me because it keeps my mind active and I buy it at cost price” (Restaurant B, 2011).

#### Customer Driven Service Developments

Customers were often noted as the catalyst for development of products and services. Based on customer demand, one interviewee had opened the restaurant on an evening that was normally closed. He had seen a demand from wealthy customers who had their own collection of fine wines. This spurred an innovative idea for creating a ‘gourmet club’ for selected customers that take the whole restaurant for the night. The chef/owner proudly stated, “this works well as it was the least profitable night of the week and we do a set menu with a theme that I change each week” (Restaurant B, 2011). These customers are able to bring bottles of wine from their own private collection and only charged corkage based on the usual profit margin of in-house wines. The themes for this gourmet club change each week and were announced by the staff towards the end of the meal, so that customers come back for the following week. This has proved successful for this entrepreneur with numbers growing in the gourmet club. It has reduced the need for over stocking food products based on a specifically designed menu and number of customers. The chef/owner stated “This has meant I need less staff, front and back of house, less pressure in the kitchen and I get to talk to my customers” (Restaurant B, 2011).

### **Marketing**

#### Social Media

Throughout the case studies, innovative ways of marketing were noted. Innovations had primarily been in the social media networking arena. Social networking via the web was working well in each of the case study restaurants. The social platforms Twitter and Facebook allowed specific information and messages to be announced immediately in relation to things restaurants were doing. Although, some interviewees maintained that there is still no clearer message than traditional ‘word of mouth’, social media were recognised to be working for many people. One general manager believed, “there are advantages of the speed of the social network system in communicating messages to a large number of people, but we have to make sure we consistently exceeded customer’s expectations!” (Restaurant C, 2011).

#### Brand Image Initiatives

Interviewees also reported employing marketing staff, to not only build business through selective advertising, but also brand recognition for the restaurant and chef/owner. One marketing manager stated, “brand awareness is so important.... first of mind, ensuring people know where you are, what you are, what you’re offering and what you stand for” (Restaurant C, 2011). Another strategy that was mentioned was to develop personal brand recognition for one chef/owner, whose aim was to pursue television opportunities. He stated, “there is a chance for me with the new marketing person I have on board, and I am aware that it would be an opportunity for a wonderful lifestyle, my wife wants me to, but, to be honest I am a bit nervous....we’ll see!” (Restaurant B, 2011).

#### Database marketing

Another marketing initiative being used was a third party business that sets up entertainment cards, offering potential customers 25% discount for selected restaurants. The entertainment

card business, as part of the service, develops a refined database on the customer's visitation habits for the restaurants. Two of the restaurants also presented customers with a small form, with an email address to be filled in, when presented with the restaurant bill. The email addresses were used to inform customers of up and coming events, recipes, special deals, and even disclosed celebrity customers eating at the restaurants. One chef/owner said, "we have about eighteen hundred people on our database thanks to the entertainment card business and we have mass send-outs at least once a month" (Restaurant A, 2011).

### Sales promotions

One restaurant used an incremental innovation to encourage wine sales and at the same time experimented in developing a more complete dining experience. The sommelier said, "I have been given the authority to make decisions on boosting business from alcohol, cocktails seem to remain the same, so I am offering a small glass of wine as a taster with the hope that the customer will buy the bottle. There would be no charge for the glass of wine if the customer chose not to buy the bottle" (Restaurant A, 2011). Innovatively, if the open bottle of wine was not purchased by the customer it was used by the glass the following day to complement a dish of the day, worked out by the chefs, at a set price.

## **Processes**

### Training Systems

Systems are in place to ensure the efficiency and effectiveness of the business. They provide an operational base that creates a working environment that supports quality, which in turn has the advantage of increasing customer satisfaction. For these restaurants, systems were a prominent factor that explained why key staff members had been working in the establishments for a long period of time. These long term permanent staff ensured the systems remained in place to assist new employees. It sustained consistency, and allowed incremental changes to be enforced with the restaurants' future directions. The systems provided a sense of fulfilment, as staff were empowered to be communicators and teachers for new employees. The restaurant manager, who had been working with the chef/owner in previous and the present business for nine years stated, "staff acting as trainers due to their long-term experience in premises gives them greater skills and pride in what they do, which helps everyone in the business" (Restaurant B, 2011). Implementing systems within the business develops an approach that creates team spirit. It allows specific duties to be evaluated for their efficiency. One restaurant manager said, "systems are in place and are refined when necessary, but basically each staff member is aware of their duties and they religiously follow it [them] to support their colleagues, especially for those on the next shift" (Restaurant A, 2011).

### Training and Inspiring Staff

Internal support mechanisms, such as training, allow a congruent flow on effect from employees who display a desire for creating a true dining experience for the customer. One general manager said, "training staff to be receptive to customer needs is of ultimate importance, they are number one!" (Restaurant C, 2011). In order to achieve this successfully it is necessary that employees are trained to have an appreciation: for the type of customer; their idiosyncrasies; and the ability to read their body language. All case restaurants believed consistency, in all aspects of the restaurant, was their competitive edge in maintaining a customer following. One chef/owner stated, "without properly training your staff you will be lacking consistency in the restaurant, you can't do it all yourself and you definitely can't do it

if you're not there" (Restaurant A, 2011). Inspiring staff to maintain quality has been evident in one of the premises, as the chef/owner has innovatively compiled a competition for his young staff, with a financial reward for the winner. It allows the young team members to produce a menu, cost it, source local ingredients and cook one dish to be blind tasted by the owner along with experienced restaurant staff. The chef/owner said, "with an incentive, kids today respond very quickly, which is good for their learning, but also good for my business, they have an appreciation for costs and consequently there is less waste." I also believe it gives them a sense of pride! (Restaurant B, 2011).

## **Organisation**

### Staff Welfare and Empowerment

There is a greater focus on the wants and needs of the customer and supplying a reliable product. This has proved successful when businesses value their staff and consider their welfare, some to the extent of an extended family. One chef/owner stated, "I expect my staff to eat in the restaurant like any customer would" (Restaurant A, 2011). This organisational structure supports staff empowerment, with owners having full confidence in their team to promote the restaurant as if it was their own. This empowerment has proved to be more profitable for the business and to the employees in the long run based on incentives and gratuities.

### Investment in Employees

The restaurant interviewees all support the notion of having a fresh and energised team of employees to complement the day to day running of the business. Keeping employees interested and focussed has been linked to encouraging a sense of pride for being a part of a successful restaurant. It was also found that to maintain active minds in employees, training initiatives and multi-skilling were organised to increase skills and knowledge levels. The investment in staff has benefits of maintaining a workforce that becomes long-term and reliable. This approach, stated by a general manager, "supports the branding of the restaurant by the way staff stand, talk, walk and send the same message" (Restaurant C, 2011).

## **Business Performance**

During the interviews, participants were asked to comment on how the innovations and success factors they had reported on influenced the performance of their restaurant. The results suggest that business performance is assessed in a variety of ways.

### Personal Achievement

Personal achievements were registered as highly important. The following are some of the remarks from the interviewees.

The chef/owner stated, "the biggest buzz for me is that I can have 50 to 60 people Friday and Saturday nights and have them walking past the kitchen and telling me how good it all is" and "Having pride and energy to cook to the best of your ability day in and day out" (Restaurant B, 2011).

The head chef said, "I thrive on winning awards and being the best against my peers" (Restaurant C, 2011).

### Lifestyle Balance

Lifestyle has proved to be a catalyst and performance indicator associated with running a successful restaurant business. This was evidenced by owners letting go of the reins and allowing empowered staff to maintain the business in the same way. Lifestyle provides a focus on enjoying the restaurant business for its diversities of making a profit, constantly changing environments, friends, delivering consistently high standards, but removing the pressures. One chef/owner said, "I have worked hard in this industry, I want to take it easy now, do the easy jobs, less pressure" (Restaurant A, 2011).

### Growing an empire

One restaurant in particular had big plans for the future. The general manager stated, "the owners are very ambitious and very good at what they do, I can't disclose any more than that" (Restaurant C, 2011). It was evident that interviewees were excited for the future in relation to building an empire through their restaurant business.

### **Conclusion**

This research presentation will expand on these results and present a framework to illustrate the essential role of innovation in developing and sustaining a viable restaurant business. While the literature discusses both radical and incremental innovations, the results of the research clearly show that incremental innovations are the key drivers of restaurant performance. According to the restaurant entrepreneurs, managers and staff interviewed so far, incremental innovations are essential to a restaurant's success in four key areas. These key areas of innovation are related to: product and service; marketing; processes; and organisational culture. Innovations pertaining to the menu and developments in the kitchen are clearly a key source of success for restaurants. Restaurants can learn from the success of award winning operators, by noting the importance of using a variety of sources to trigger these innovations, including a range of food media, award promotions and the customer directly. An interesting finding of this study is that restaurant suppliers are another critical source of influence for menu innovations. This suggests that a fifth type of innovation may be added to the four types noted in previous studies, namely the external influence of service and products initiated by supply chain networks.

Several of the innovation factors noted by participants in this study may appear well established, such as staff training and empowerment of employees. What emerged from the data collected in this study, however, is that even the most well established elements of running a restaurant business requires ongoing changes and improvement to be competitively viable. This was particularly evident in the area of establishing ways to motivate and retain key restaurant personnel, whereby a number of interviewees noted the importance of being innovative in the ways they involve staff in the business. To be innovative across all areas of the restaurant, it was apparent that an organisational culture that embraces change and development has more potential for succeeding in business performance. This presentation will expand on these findings and will suggest future research issues needed to understand how restaurants engage in a range of innovation practices to sustain business performance.

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