

CHAPTER 1

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1.1 Background of the Research

People nowadays, have been accustomed to eat outside their own house. Most people would go “dine-out” at least twice a week and some of us would probably dine-out every day. This is mostly caused by easier access of eating destinations and lesser time to cook at home due to busier life and this habit has been a lifestyle (Kalijati, 2009). Ryanovacalo of Kuliner Jakarta stated that besides lifestyle, people would go dining out to hunt their favourite food and fulfil their desire for foods. There are several destinations to eat-out ranging from portable food stalls (usually serving meatball soup, fried rice, or fried noodles), permanent food stalls or what the people in Indonesia usually call “*Warung*”, small diner (“*Depot*”), coffee shop, café, and restaurant. The prices also differ from one type of dining place over the other.

The fastest growing one is restaurant. Badan Pusat Statistik (BPS) recorded a very significant growth in restaurant industry in four years from 2003 to 2006 (Table 1.1). Restaurant is a company that serves and prepares food and beverage to be consumed on the site. Restaurant usually has medium to large size facilities that offer great service and environment as well as food.

Table 1.1 : Restaurant growth in Indonesia
Restaurant Industry Indonesia

	2003	2004	2005	2006
GDP	63193,1	68317	78093,8	92214,9
Growth		8,108322%	14,31093%	18,08223%

(Source: BPS,2007)



Restaurant establishment had been known since the 12th century. It was predicted that the first restaurant was started in Hangzhou, where the population and economic growth had triggered the development of restaurant (Wikipedia, 2007). In the West, restaurants as businesses devoted to the serving of food, and where particular dishes are ordered by the visitor and normally prepared according to this order, appeared only in the 18th century. According to the Guinness Book of Records, The Sobrino de Botin in Madrid, Spain is the oldest restaurant in existence, opened since 1725. The term restaurant (from the French *restaurer*, meaning: to restore) first appeared in the 16th century (Wikipedia, 2007), meaning "a food which restores", and referred exclusively to a rich, highly flavored broth. It was first applied to a consumption establishment, founded by a Parisian soup-seller named Boulanger in around 1765. The first restaurant in the form that became standard (customers sitting down with individual portions at individual tables; a typical western restaurant form, selecting food from menus, during fixed opening hours) was the Grand Taverne de Londres ("the Great Tavern of London"), established in Paris in 1782 by a restaurateur named Antoine Beauvilliers, an important culinary author and gastronomic authority who accomplished a reputation as a successful restaurant entrepreneur and the writer of a very famous cook book, *L'Art du cuisinier* in 1814.

Café is the informal form of a restaurant. Café would serve all the function of restaurant, which is a company dedicated to serve and prepare foods and beverages to be consumed on site. The differences are restaurant concerns more about food rather than beverage, which make restaurant usually do not have many options for drink menu; whilst a café would serve beverage variety as many or more than food variety. Café would also take less formal form, showed by their environment, server's uniform, and menu. The less formal "feel" of café made it possible to go to even before or after meal-hour, and this situation extends café's business hour.

Café is not to be confused with coffee shop though. These two is often mixed-up, but they are actually very different. Café, although it is the French word for coffee, is a dining place which serves and prepares food and beverage to be consumed on-site in a less formal form than restaurant. Coffee shop, in the other hand, is a site which dedicated to sell mainly coffee beverages and little or none other type of beverages to be consumed on-site or take-away. Coffee shop never prepares food menu; it usually only sells ready-to-serve light meal such as cookies, ready-to-eat sandwiches, or cake.

In Indonesia, as café and restaurant have only little differences; these two forms are considered as one industry. Restaurants or café could take place on the side of roads, in malls, hotels, or a clubhouse. There are different types of restaurants: Fast food restaurant and Family style restaurant. Fast food restaurants are restaurants with ready-to-serve meal which typically serve food within one or two minutes after ordering. Family style restaurant, in the other hand, is a more serviced type of restaurant. These restaurants typically would offer their customers to order menu after they have sat down. There are two types of family restaurant; that is casual dining and fine dining. A casual dining restaurant would offer their menu at a moderate price with relaxed environment. Fine dining, in contrast, would offer a very sophisticated dining experience. Restaurant environment would be set to be quite elegant; the chef and service crews would come from the finest culinary schools. Foods offered are also of high quality and usually includes exotic ingredients.

Globalization had apparently affected the restaurant hospitality industry in Indonesia. Many international restaurants and cafes had been established throughout the country, especially in Java and Bali. Surabaya, the capital of East Java, as the second largest city in Indonesia; has a complete range of International Restaurant from Asian, European, African, Australian, and

American. Asian restaurants in Surabaya include Chinese, Japanese, Korean, Thai, as well as Indian. Surabaya also has variety of European restaurants; including Italian and French. American restaurants usually take forms in steakhouses. Those international restaurants are providing signature dishes of their origins and try to bring out the exotic environment of the countries.

The escalation of malls and dining-destination in Surabaya had also triggered the significant growth of restaurant industry. By 2010, Surabaya has more than sixteen malls. They are Tunjungan Plaza, Galaxy Mall, Supermall, PTC, THR mall, Delta, Maspion, Royal Plaza, Marina, BG Junction, Jembatan Merah Plaza, Empire, Golden City mall, Pasar Atom, ITC, CITO, and some other smaller ones. Surabaya, by 2010, also has more than five dining-destinations. They are Graha Family's Loop, Pakuwon City's Food Festival, Citraland's G-Walk, Surabaya Town Square, Chinatown's Kya-kya and some other smaller ones. This number would continue to increase every year. In every mall, there would be a lot of food tenants or restaurants. The number of food tenants would often be above 30 % of the whole mall. In dining-destinations this percentage goes even as high as 80% food tenants or more. Restaurants in these two sites are usually casual dining; it is very rare to find fine dining.

As more and more restaurants are opening, competitions get tighter and tighter. Restaurants began to attract customer by adding customer value financially and non-financially. Non financial value adding usually takes form of better service delivery, better food or beverage quality, and better environment. Unfortunately, the non-financial value adding is not as effective as it used to be before the industry plunged into financial value adding. The financial value adding is to give the same service and product but at lesser price. The most popular form is by offering promotional discount to customers. What was begun as an added customer value had

now begun to shift into “price war”. Continuous inflation had triggered rising prices of nearly everything, hence lower buying power of customer. This situation made customer to become “choosy” in dining-out. They would demand lower price, whilst still expecting great service and food quality.

The majority of restaurants had no other choice but to give promotional discount to maintain and get more customers. Sarah Bridge of Financial Mail United Kingdom (2009) reported that in 2008 there was a 32% rise in the number of restaurants going bust compared with 2007 and for many chains it is a case of discount or die. Neuman of New York Times (2009) reported that consumers hurt by the recession are eating out less; so the restaurants in New York are fighting one another for that shrinking pool of diners, using deep discounts to attract them. In Indonesia, the booming of this “discount war” was started in the early 2007 until present days by major banks’ credit cards. Franz Dirgantoro, Country Manager of Jobstreet.com, said that credit card companies nowadays change their value proposition from payment tools to discount cards. Restaurants began to offer 50% or bigger discounts by joining banks; and this when it started to get all wrong. Eugene Bukoveczky of Forbes’ Investopedia (2009) said that such deals are boosting customer traffic, but putting a serious dent in margins. He reported that some analysts are even concerned that the current discounting strategy could result in a long term drop in margins as the current promotions trains customers to eat out only when offered a bargain. This condition has also pressured restaurant industry, as banks are cutting their support budget from less to none. This means that restaurants have no financial support from the banks even though they give massive discount to the banks’ cardholders.

The only shed light is by doing the other option of financial value adding, that is by setting initial price to be perceived as “affordable” by most of the market. By lowering prices or

offering promotions and discounts to maintain revenue levels and operators will see profitability diminish as a result of shrinking margins (FoodBuyerNetwork.com). As by setting affordable prices, restaurant had to be able to maintain high sales volume and great stock control. For these two factors are able to cover the low profit margins, they cannot be underestimated. High sales volume objective might be easier to accomplish as joining banks would gain exposure which leads to higher sales. The problem lays in stock or inventory controlling. Jim Laube from restaurantowner.com stated that inventory is nothing more than a cost until it is sold. The larger your inventory, the less money you have available for marketing, for new equipment, or simply drawing interest in a bank account (restaurantowner.com). Outstanding raw material inventory control would not only support sales availability, but also support restaurant cost advantage. Many restaurants would leave the raw material stock control to the head chef or restaurant managers. These people would find difficulty in controlling stocks without help from information system.

“C” Café is a new café which understand the danger of price war; thus it had set its price to be affordable and committed not to be “trapped” into joining any banks’ discount promotion which leads to nothing but loss. The “affordable” price means that the profit margin is not high enough to cope with intolerable loss of inventory or excessive wastes. “C” is already using point-of-sale system for its transaction information system, but to have consistent operation and production efficiency as well as good marketing system, an outstanding inventory control through a supply management information system is needed. Inventory management of raw materials or as we recognize in business term as inbound logistic is very important as it is a major cost driver.

Currently, “C” Café is tracking inventory manually. Production departments (Bar & Kitchen) are to fill out manual inventory sheets every day. The sheets would be the report itself and would be checked every two weeks by the manager. It is not effective as the report doesn’t show real time inventory status and doesn’t also show the profit gained or loss suffered at any time needed. The report is also not efficient as manually filling in the form wastes a lot of time as physical stock recounting has to be done.

1.2 Problem Statement

How to design and implement Purchasing and Inventory Management System in “C” cafe to help production efficiency and marketing mix decisions?

1.3 Objective of the Research

To design and implement Supply Management System focused on inbound logistic that is Purchasing and Inventory Management System to maintain production efficiency; which is needed to gain cost advantage and enable café to maintain its affordable price and make the best marketing mix plan to compete in the restaurant price-war era.

1.4 Significance of the Research

For the company:

The company would benefit by being able to maintain stock control and gain cost advantage thus being able to serve affordable menu without losing profit to unnecessary waste as well as able to create effective marketing strategies.

For the reader:

- a. It can add knowledge for someone who will do advanced research or implement it to the real business world.
- b. It would be repertory literature materials as comparison for someone who will do some related researches.

For the writer:

- a. It is expected to be an application of knowledge of theory and experience in management information system, marketing, and consumer behaviour.