

# [Managing service operations](https://assignbuster.com/managing-service-operations-essay-samples/)

Raised in Tokyo, Hiroaki Aoki managed to launch his first business in the United States. Taking advantage of his origin, he opened a Chinese-Japanese cuisine restaurant offering a unique experience to its customers. The food process was transformed to an exceptional food experience and with the opening of a chain of in total 15 restaurants Hiroaki Aoki proved to be a pioneer in the restaurant industry.

The way he managed to succeed this, was through revolutionary moves regarding restaurant’s environment, financial operations and service structure. By decorating his restaurant with Japanese elements and employing Japanese chefs as showmen, the perception of dining at Benihana changed. This new perspective was further supported by reducing the kitchen-room as to have more space for tables and fully adapt the Japanese philosophy as well as creating an unparalleled image for his business.

Due to the uniqueness of the Benihana restaurants, franchise as a growth strategy brought upon many problems: starting from a lack of communication between managers and the Japanese speaking personnel, to inexperienced managers in franchised businesses abroad. This led Hiroaki Aoki to reconsider his options and deciding to expand through other models (joint-venture and hotel-corporation) and in other areas of food industry (retail and quick service food sector). Whether this is a sustainable move or not will be identified within this report.

Benihana’s concept is based on an authentic Japanese atmosphere. The use of American food favourites (chicken, steak, etc.) combined with the “ hibatchi” method of presentation makes this restaurant very different from others (Sasser, 2004). Glushko and Tabas (2008) state that service management and design success depend on the interaction between employees and customers. Thus the quality of the “ service experience” relies on the “ front stage” activities displayed in a restaurant. Furthermore, Frei (2006) adds that the “ line of visibility” is the factor that separates “ the front stage” and the “ back stage” (Appendix 3). If Benihana was to compare with a McDonalds and a Gourmet Restaurant the service encounters would be very different (Appendix 4) (Frei, 2006). In the case of McDonalds the line of visibility for the “ front-stage” is very small and depends on waiting lines and self-service, whereas all the production lines occur in the back stage, thus the customer’s experience is very limited (ibid.). A customer’s experience in a gourmet restaurant has a balance between the “ front-stage”, dining room experience, and the “ kitchen-backstage-area” (ibid.). Compared to both of these, Benihana enhances the experience of their customers by treating the chef as a showman and having a different production line to service (ibid.). The front stage is the largest part of the operations with the chef cooking and serving the dishes together with the waiter, whereas the kitchen preparation is a very small part of their process (Sasser, 2004). This different concept increases customer satisfaction: 9

As seen in Figure 2, customer satisfaction is rated as excellent, which implies that the Benihana service concept is successful. In order to further develop this aspect of their business, Benihana also developed several other concepts in relation to their design, their bar and their customer batching in groups, which will be further discussed in Chapter 3. 2. 2 Benihana’s Restaurant Design. 10

Benihana created a concept that includes food, atmosphere, entertainment and hospitality, while trying to be consistent, with their Japanese heritage. Furthermore, the owner is planning expansion steps to appeal to a wider range of clientele. However, Hiroaki Aoki has two major concerns. The first issue is how to sustainably expand and upgrade his product and services to cater a wider range of audience, while keeping the quality and the Japanese traditional atmosphere. The second issue is how to define what Benihana is selling.

## Data Analysis

## Benihana’s Strategy

Considering the growth of Benihana from a “ humble 40-seat unit” to a chain of 15 units across the country, Hiroaki Aoki had a very successful strategic planning behind the concept of his restaurant (Figure 1) (Sasser, 2004). Strategic planning can be defined as an organizational process of allocating its resources in order to pursue a strategy that includes its capital, employees and most important its clients (Haines & Schmidt, 2005). The owner, Rocky, approached a combination of inputs (operations), customers satisfaction and outcomes (financial results) in order to provide a new idea behind the strategy of a normal restaurant, maximizing its strengths and diminishing its weaknesses (Appendix 2) (Heskett, Sasser & Schlesinger, 1997).

Figure 1 : Benihana Strategic Planning

Note: Adapted from Heskett, Sasser & Schlesinger, 1997

Benihana’s strategic planning took into consideration five important aspects: Construction, Finance, Marketing, Human Resources and Operations (Heskett, Sasser & Schlesinger, 1997). They provide the framework for understanding how the firms’ operational investment is translated into its profit. Furthermore, Benihana’s concept and cost-structure will be presented in relation to this model in order to understand the true authenticity behind this different restaurant management approach.

## Benihana’s Concept

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Figure 2 : Customer Satisfaction

Note: Own design according to Exhibit 4, Sasser, 2004

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## Benihana’s Cost Structure

In terms of Benihana’s cost arrangement the owner implemented a strategic cost structure to the business by lowering the cost of labour and food and beverage. The cooking labour is cost efficient due to the cost reduction that was done through their chef’s; they did not only prepare the food, but also served it (Sasser, 2004). With concerns to the food and beverage costs, due to their limited menu, inventory reduction also occurred (ibid.). Taking into account all the mentioned measures, the results have a direct impact on the financial statement of the restaurant.

Figure 3: Benihana´s Partial Income Statement

Note: Sasser, 2004; Bank of America, 1968

As seen in Figure 3, Benihana´s Earnings Before Income Tax and Depreciation (EBITDA) is on average between 15 and 35% higher than one’s of a typical service restaurant (Sasser, 2004). It is observed that there are two factors, which increase profitability: lower food and beverage cost (limited menu, fewer inventories) as well as lower labour cost. The lower labour cost is the influential reason behind this high difference in marginal profit.

Analyzing the employee that plays the most important role in the restaurant, the Benihana chef, an employee profile was created (Appendix 5). PayScale (2010) provides an immediate accurate snapshot of the job market and gives facts of employee’s salary data in the world. Thus it was used as a source to calculate the annual average salaries of the food and beverage segment as well as the job specification of a chef in 1964 (Appendix 6) (ibid.). The average annual salary of a Benihana chef can be analyzed through the figure below.

Figure 4 : Benihana´s Chef Annual Average Salaries 1964

Note: PayScale, 2010

It can be noticed that the Benihana master-chefs have a slightly above average income compared to the market. As the success and the reputation of the restaurant depend on these employees, it is very important to keep them motivated and this further demonstrates that the owner, Rocky, also has a human resources operation strategic planning as seen in Figure 1.

## Benihana’s Restaurant Capacity

Managers are continuously challenged with balancing customer demand and service capacity (Klassen & Rohleder, 2002). The capacity of a business can be seen as their ability to meet the demand; for the production of goods this can be easily done, but for services it is very difficult as four critical factors have to be taken into account: time, labour, infrastructure and equipment (ibid.). Thus capacity has to be planned ahead in order to achieve cost effectiveness and the customer satisfaction. In the case of Benihana, an estimation of the maximum demand rate for an evening dinner period was calculated in order to foresee the capacity to sustain it:

Figure 5: Benihana´s Capacity vs. Demand Rate

Note: Own design; Sasser, 2004

It can be noted from Figure 5 that in a case of maximum demand rate, Benihana’s capacity will not be able to fit 360 clients in one night. Although the restaurant has already a limited menu, Benihana also took into consideration a decrease in dining time. The chefs also plays an important part by offering the guests the ultimate gastronomic experience and politely annoucing them that their dinner is over by bowing at the end of the meal-presentation (Sasser, 2004).

## Benihana’s Production Process System

Before a company can actually decide on which customer target market it will serve, it has to define its value proposition and its position in the market (Kotler & Armstrong, 2010). The positioning of a company is defined as a consumer`s appreciation of the product compared to competing products (ibid.). As one can see in Appendix 7, Benihana has a high customer value and a differentiated position in the market. Hiroaki Aoki achieved this position, through an unprecedented service experience and design (Sasser, 2004), which will be highlighted in the following chapter.

## Benihana`s Service Design

Every service idea starts with a service concept, where the purpose, target market and the customer experience are defined (Russell & Taylor, 2009). By opening an authenticable Japanese restaurant in the United States, Hiroaki Aoki focused on two main criteria, Americans enjoy when they are going out for dinner: an exotic surrounding and a place where they can watch the preparation of their food (Sasser, 2004). Referring to the previous chapter, out of this observation, he created a completely new service concept: the Benihana dining concept, where the food is prepared by professional chefs on hibachi tables’ right in front of the guests. This newly developed concept was both, revenue- and cost-effective (Heskett, Sasser & Schlesinger, 1997).

A service package is a “ mixture of physical items, sensual benefits, and psychological benefits” (Russell & Taylor, 2009). The specialty of a Benihana restaurant is their design according to historical authenticity. All the physical items (walls, ceilings, lights, etc.) are from Japan and the materials are originally shipped to the United States (Sasser, 2004). Sensual benefits are supported by the highly trained native Japanese chefs whose form of cooking is mainly showmanship (ibid.). The psychological benefits in a Benihana restaurant are the exotic surroundings and authenticity of the place. The combination of all three components concludes in an effective service design (Russell & Taylor, 2009). Therefore, the connection is presented in the service design process:

Figure 6: The Service Design Process

Note: Adapted from Russell & Taylor, 2009

Derived from the service package, specifications for performance, design and delivery are specified. Based on the customer expectations (exotic surrounding), the design (original materials from Japan) and delivery (downtown Manhattan) are created (Russell & Taylor, 2009).

## Benihana`s Restaurant Design

The design of a typical Benihana restaurant is created to increase efficiency and profitability. A typical Benihana restaurant design, which presents the floor plan of the Benihana West restaurant on West 56th Street in Manhattan (Sasser, 2004), is shown in Figure 7. It is comprised of 112 to 120 seats in the dining area as well as 55 to 60 seats in the cocktail lounge and the typical operation has between 5, 000 and 6, 000 square feet (ibid.).

Figure 7: A typical Benihana Floor Plan

Note: Sasser, 2004

Once guests enter the restaurant, they first pass the cocktail lounge. The bar in the first Benihana restaurant only seated eight guests as the design was concentrated on food-service sales (Sasser, 2004). Along the openings of new restaurants, the founder realized, that the small space was insufficient and enlarged the bar space with every opening. He found out, that in peak times, the bar is well used as a buffer and therefore increases the beverage sales (ibid.). When all the 14 tables in the dining area are occupied, the guests are waiting here for an aperitif, until there are seats available. In the bar, the guests are batched in groups of 8 and are leaded to the dining area. The main attractions in the dining area are the “ teppanyaki” tables, which cover eight diners per table and are served by one chef and a waitress (Sasser, 2004). Due to the “ hibachi” tables, the conventional back-stage kitchen can be reduced as the cooking itself takes place front-stage at the customer`s table. This leads to shorter serving distances and one team of chef and waitress can handle two tables at once. The arrangement of the tables (see also Figure 6), also results in lower cost of labour (Sasser, 2004).

## Examination of the Production System

The design of the production process comes along with the design of the restaurant space. The whole production line moves towards the service of the customer. It starts in the bar, where the guests are grouped together in “ batches” of eight before having their dinner (Verweire & Van den Berghe, 2005). It has to be taken into consideration that the combination of batches is satisfactory for smaller groups arriving, since they do not know each other (Appendix 8). This “ batch concept” leads to higher beverage sales and allows using the whole provided capacity in the restaurant.

According to Russell and Taylor (2009) design simplification “ reduces the number of parts, subassemblies, and options in a product”. Benihana`s menu consists of four main food items (filet mignon, steak, chicken and shrimp) accompanied by unvaried side dishes (zucchini, onions, bean sprouts, fresh mushrooms and rice), which can be combined as entrees or main dishes (Sasser, 2004). As seen in Figure 4 this standardization of ingredients cuts the food costs down to 30-35% of food sales and leaves nearly no waste (Sasser, 2004; Russell & Taylor, 2009). This also minimizes the space for food storage, which results in less space in the back stage of the restaurant.

Since services are defined as front-stage activities, the dining room of a restaurant is the service part, whereas the kitchen is classified as the production part (Teboul, 2006). Through the preparation of the meal in front of the customer, not only the service experience is greater, but also a conventional kitchen is not necessary anymore. This enlarges the productive dining area and reduces the back area (preparation areas, dressing rooms, storage and office space) of about 22% of the total space (Sasser, 2004).

According to Verma and Boyer (2010), the aim of successful process design is to maximize the output. To identify possible limitations, a bottleneck analysis is helpful. A bottleneck in a process is “ the step with the slowest cycle time in a given process” (Verma & Boyer, 2010) and verifies the process productivity.

Figure 8: Process Flow Diagram of the first Benihana Restaurant in Manhattan, 1964

Note: Adapted from Verma & Boyer, 2010

While analyzing the process flow diagram (Figure 8) of a Benihana restaurant, one can see that the bottleneck hereby is the dining time of 60 minutes. This bottleneck determines the pace of the whole system even though the waiting time at the bar in peak times is only 12 minutes (Verma & Boyer, 2010).

As identified in Chapter 3. 1. 3, Figure 9 the demand of a Benihana restaurant exceeds capacity. To resolve the problem of the bottle neck, Benihana decreased the dining time and enlarged the bar capacity to cover more waiting customers. Over the years, Benihana first doubled the bar area to 16 seats and eventually reached up to 55-60 seats (Sasser, 2004). Figure 9 shows some scenarios for different bar and dining area arrangements and waiting times. The maximum dining capacity of 120 seats allows a bar capacity of 48 seats (Figure 9).

Figure 9 : Scenarios for different Bar and Dining Area Arrangements and Waiting Times

Note: Own Calculations

## Concerns regarding Diversification Plans

According to “ Ansoff’s Growth and Expansion Matrix”, one can find four different options of development: market development, diversification, market penetration and product development (Campbell & Craig, 2005). Benihana took into consideration the following strategies:

Figure 10 : Expansion Plan of Benihana

Note: Adapted from Campbell & Craig, 2005

The first one, market development (1), is the “ growth of an existing product into new market sectors” (Campbell & Craig, 2005). Regarding their diversification plans, Benihana’s attempt is to expand in other countries where they have to take into consideration the customs of each nation, its rules and regulations. The same principles cannot be applied for all regions, so in order to develop successfully the restaurant chain these concerns should be well evaluated. Furthermore, it is very difficult for the company to be franchised, since not all owners have previous experience in the restaurant business (Sasser, 2004). Communication with the staff is also very difficult, since the majority is Japanese. Moreover, it is very demanding to supervise and keep control of what is happening in restaurants around the world. Hence, Rocky decided for the near future, instead of attempting to franchise his restaurant business, to move either into a joint-venture or into hotel-corporations and expand in two areas: Japan and overseas (ibid.).

Diversification (2) is known as an approach of involving “ new products in new markets” (Campbell & Craig, 2005). Rocky also decided to widen his business into other fields connected to the food industry. A first attempt in the retail production and selling is under discussion. Entering the retail-sale-market is time consuming and has high advertising costs, so Benihana should probably re-evaluate their advertisement budget and more likely reduce the promotion funds for the restaurants, which is a risky move (Restaurant Worx, 2010). If someone is not satisfied by the quality of the product he/she will probably create a negative idea about the company and never visit a Benihana restaurant. It is also uncertain how unique the product is or how likely it is for other similar products to be created in the near future (ibid.).

Product development (3) is known as increasing the market share by developing new products (Campbell & Craig, 2005). In general Benihana restaurants have middle-income customers as its target group (Sassa, 2004). This is linked directly to the quality of the services offered, restaurant’s atmosphere and prices. Alternatively, they have no young audience in Benihana restaurants. This is one of the reasons why Rocky is considering of opening a quick service restaurant as to be able to satisfy younger crowd’s needs as well (ibid.). To put this project into action, firstly a market research was made about the “ restaurant needs” of the people, the food that will be provided in these restaurants, deciding on a combination of Asian cuisine – Chinese and Japanese – and their location. Furthermore, cooperation between Rocky and an oil company will be formed as to provide small gas units to his new restaurants (ibid.). Even though a thorough research was conducted for this expansion a very significant element was neglected; the culture of the locals. Maybe the proposal of a Chinese-Japanese quick service restaurant was innovative for that time, but not all the neighbourhoods were prepared to welcome that idea (ibid.).

The last one, market penetration (4), is known as “ the use of existing products in existing markets, which are already served” (Campbell & Craig, 2005). The United States therefore give three areas for growth: primary markets (New York, Los Angeles), secondary markets (Pennsylvania, Harresburg, etc) and Suburbia. Due to the already mentioned inefficient franchise strategy, Benihana will not only expand internationally but also domestically through joint-ventures and hotel-affiliations (Sasser, 2004).

## Concerns regarding the loss of identity

Benihana is selling to its customers a whole new perception of food consumption. Starting its business in 1964 in the U. S., it introduced to the market an innovative procedure of food preparation and presentation to the customers (Sasser, 2004). Instead of cooking the food inside a spacious kitchen, they used more room for the restaurant area as to prepare meals in front of the customers on a “ teppanyaki” table with the hibachi cooking method. Benihana created a culture for the chain based on Japanese cooking method by well trained chefs and Japanese design. The environment of Benihana restaurants – decoration and atmosphere – is of vast importance for the company, since the philosophy of Benihana is to “ make people happy” through the food experience (Bitner, 1992; Sasser, 2004). However, the environment is important not only for the customers who should feel satisfied, but also for the employees. In turn for the employees to feel motivated and perform their best, their working surroundings should support their needs, as to be able to enhance company’s values to the customers (ibid.). Consequently, Benihana should continue providing such services and facilities to its customers and employees as to sustain the “ chemistry” between them and therefore continue to be a successful company.

## Presentation of Solution and Recommendations

Benihana had a very successful strategy so far due to its construction, finance, marketing, human resources and operations management. They were able to translate market trends into their concepts and adapt them efficiently. Furthermore, they managed to reduce the back stage kitchen area into a front stage environment that displayed cooking and entertaining as one. The concept was so innovative that Rocky was actually able to reduce expenses.

According to the diversification plan, Rocky intended to expand his business into more fields of the food industry. To develop his company, he tried to take advantage of the Benihana recognition, as to enter further markets, but on the other hand this step would be risky, because if the new concepts would fail, it could damage Benihana’s reputation.

Sasser (1976) states, that “ good planning is the key to successful management of supply and demand in service industries”. As discussed in this paper one of the biggest problems that Benihana is facing, is how it will sustainably expand, while keeping their quality and their concept (limited menu, chef as a showman, Japanese atmosphere). Furthermore, as seen in Figure 10, Rocky has made a lot of plans regarding the growth and diversification of the Benihana restaurant. It is recommended that before attempting to implement all his ideas, a development strategic plan should be developed in order to best fit this expansion. Therefore the supply and demand matching concept should be taken into consideration:

Figure 11 : Strategies for Matching Supply and Demand for Benihana’s services

Note: Adapted from Wisner, Leong, & Tan, 2005

Lovelock (1994) further states that this can be accomplished through shifting demand to match capacity or adjusting capacity to meet demand (Appendix 9).

In order to resolve the second issue, Benihana should focus on selling Japanese food and promoting their philosophy. One of the main key points of Benihana’s achievements is the unique food experience it sells to its customers. Therefore, the basic elements of this “ successful recipe” should be included in any other expansion step the company and Rocky decide to take. Without the fear of being imitated, they should take advantage of their uniqueness and develop in other areas of food industry. Through this move they would also be able to focus on other target groups, such as younger audience, which currently are not part of Benihana’s targeted clientele. In this way Rocky will be able to launch his restaurant name and not only become a current trend, but also establish his brand in the hospitality industry, by providing Japanese authentic services.

## Action Plan

Evidence Of Success & Evaluation Process : Increase in Demand

Increase in Profitability

Customer Satisfaction Survey

Employee Satisfaction Survey

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