

Cost management in the fast food industry



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The Fast food organization which the researcher intends to carry out research is owned by a leading fast food brand it is the world's largest fast food restaurant company in terms of system units-over 36, 000 restaurants around the world in more than 110 countries and territories. In 2008, its global sales totaled more than US\$11 billion was created on October 7, 1997, as Tricon Global Restaurants, Inc. This organization is a world wide operator and franchisor of a broad portfolio of fast food restaurants. The head quarters of this organization are in United States.

It has a wide range of brands:-

The researcher is going to research on the Pizza Hut, as it is the prime brand .

1. 1 Cost Control

Generating revenue is the main aim of an organization. The maximum use of resources with least expenses is cost control. Cutting costs is the simplest way to improve your bottom line. Introducing a cost control system can bring immediate savings and ensure that you remain competitive in the longer term. But cost control needs to be carefully managed. While eliminating wasteful activities is clearly beneficial, indiscriminate cost cutting can lead to falling quality and poor morale.

According to (Clement Ojugo , 2003) cost control means steps taken by management to assure that the cost objectives set down in the planning stage are attained and to assure that all segments of the organization function in a manner consistent with its policies. For effective cost control,

most organizations use standard cost system , in which the actual costs are compared against standard costs for performance evaluation and the deviations are investigated for remedial actions. Cost control is also concerned with feedback that might change any or all of the future plans, the production method, or both.

(Michael M, 2001) defines; cost accounting establishes budget and actual cost of operations, processes, departments or product and the analysis of variances, profitability or social use of funds. Managers use cost accounting to support decision-making to cut a company's costs and improve profitability.

Importance of cost control in Fast -Food Industry.

The operations cost in a fast-food organization depends upon how accurately the costing strategies are applied. If the cost control strategies are applied with-out considering the operational side of the organization it will have negative results on revenue.

According to (Ismail A, 2001) successful cost control strategies require inventory data updated. Author suggest best practice, cost control depends upon Frequency and timeliness of inventory which means daily business reports, weekly trading reports and monthly reporting.

According to (Talyn. L, 2001) because food cost is usually one of the highest cost percentages in any establishment, it is important to know how to calculate it. Whether it is a steak and seafood restaurant, a family restaurant, a pub or a martini bar, it is very important to know what the total

food cost is. Author says that if the food cost is not learnt or pre calculated then the end result would be a lack or lose control over the food cost giving higher losses in return.

According to (Jagels. M, 2007) the implementation of cost control has number of advantages. Quantify future plans: the cost control process compels operational managers to look ahead and follow the strategies applied by the cost controller. This identifies the shortfalls in sales and resources and provides the opportunity for measures to be implemented to overcome the difficulties. Set revenue objectives and targets: the cost control process provides the opportunity to set targets to reduce operational expenditure. The restaurants cost control is dependent on the operational staff. Communicate objectives: the cost control system provides a formal opportunity for higher level managers at divisional regional levels to set targets based on the long term objectives of the organization. Control business performance: the process provides a standard based on expected revenues and costs to which actual performance can be compared. Variance between fixed cost and variable cost identifies the opportunity to maximize profits.

(Wood. R, 2008) looks at cost control with a very practical approach. (Woods R, 2008) says that costing process in its entirety time consuming and therefore costly in terms of management time and resources. (Woods. R, 2008) argues that the cost and time involved are not justifiable because the end result is based on many unknown factors and the actual performance will almost certainly be different.

This criticism needs to be considered in the advantages of the cost control system, because it forces managers to consider all relevant factors likely to affect their business and plan for the effective use of resources, and this requires both an internal and an external analysis.

THE RATIONALE

According to (Cohen, L, 2000) rational is sensible reason to conduct a research study.

The researcher finds fast food field interesting because of the researcher is presently in the same field. This research will help the researcher learn the fast food organization cost control strategies.

The organization in the fast food sector has different kinds of budgets like Material, capital, operation strategies. To solve the problem of high cost and generate maximum profit.

The researcher is working in the fast food industry which the researcher wishes to research. The main concern in this industry is to serve people and have 100% customer satisfaction. In order to present the best of amenities, facilities and infrastructure to the guest the organization has to make some expenses which have to be planned and aligned with the help of cost control strategies from the revenues generated.

3. RESEARCH QUESTION

This research is designed to answer the question 'Is the Fast-Food industry able to control cost and maximize profit?'

According to (Jagels. M, 2007) it is difficult task because of pilferage, lack of training to the new staff, adherence to standard recipe, perishables, etc should be considered while applying cost control strategies.

According to(Ralston. C, 2004) fast food operations are people oriented and people driven, it is more difficult to effectively automate and control food costs than in any other non business organization. The costs in fast food operations are fixed cost but the sales revenue are totally unpredictable.

With the above mentioned statements it can be considered that cost control is a difficult task in fast food industry. There for importance of cost control can be clear seen . Considering the details wastage details affecting the sales revenue will make perfect cost control for an organization.

4. RESEARCH HYPOTHESIS

According to (Maxwell. J, 2005) a research hypothesis is the statement created by a researcher when they speculate upon the outcome of a research or experiment.

The researcher here tries to assume that, those fast food organizations having a low food cost and higher profit are having the superior cost control strategies. In addition, those fast food organizations having a perfect cost control will be more profitable when compared to that fast food organization who often fumbles in cost control system.

5. RESEARCH OBJECTIVES

According to (Hussey, J, 1997) the underlying and overriding aims and purposes of a research or analysis exercise – that is, what researcher specifically want to find out.

The main aim of this research is to understand the cost control strategies in the fast food organization using costing as a tool

The research objectives can be summarized as follows:

To gain knowledge on how to do cost control

To identify the cost control strategy in fast food organization.

To analyze the importance of cost control in fast food organization, which contributes in keeping expenses in control and increase revenues.

To develop a list of best practices of successful strategies, which controls the cost and helps in maximizing revenue?

6. RESEARCH METHODOLOGY

According to (Zikmund, W, 2006) Methodology includes a philosophically coherent collection of theories, concepts or ideas as they relate to a particular discipline or field of inquiry.

According to (Klein and Myers, 1999) Methodology refers to more than a simple set of methods; rather it refers to the rationale and the philosophical assumptions that underlie to particular study.

7. METHODOLOGICAL APPROACH

According to (Creswell. J ,) a quantitative approach is one in which the investigator primarily uses post positivist claims for developing knowledge i. e. cause effect thinking, reduction to specific variables and hypothesis and questions, use of measurement and observation, and the test of theories. Employs strategies of inquiry such as experiments and surveys, and collects data on predetermine instruments that yield statistical data.

The research approach will be deductive to bring out the best result of research findings. The researcher emphasizes on the cost control strategies of fast food organization so the nature of the methodology will be post positivist knowledge claims, experimental strategy of inquiry.

According to (Teddlie C 1998) quantitative research includes substantial amount of literature at the beginning of a study to provide direction for the research question or hypothesis. In planning quantitative study the literature is often used at the beginning of a study to introduce a problem or to describe in detail the existing literature in a section titled “ review of literature”. In addition literature is also included a the end of a study which the researcher compares the results of the study with the existing findings in the literature.

The research will be carried out keeping the research question in focus. There will be interviews and questionnaires.

(Bryman et al 2008) suggest that a researcher should give respondents the closed ended questions where there is limited choice of possible answers. The researcher plans to give limited choice of answers but also at the same

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time open questions will be included in order to collect accurate and as much as possible information required in conducting the research.

8. RESEARCH METHODS

A deductive argument is an argument in which it is thought that the premises provide a guarantee of the truth of the conclusion. In a deductive argument, the premises are intended to provide support for the conclusion that is so strong that, if the premises are true, it would be impossible for the conclusion to be false. (Winch. W, 1913)

The researcher decides to adapt the deductive method of research, as the nature research is quantitative. According to (Thomas R, 2003) quantitative research uses numbers and statistical methods. It tends to be based on numerical measurements of specific aspects of phenomena, rather than theory and words.

According to (Glesne and Peshkin, 1992) careful sampling strategies and experimental designs are aspects of quantitative methods aimed at produce generalizable results.

The researcher intends to find out the cost control strategy by interviews and questionnaires etc. The interview will be conducted with top level managers who are involved in cost control. The survey participants will be all working in research related areas. The semi structured interviews may start with an organizational questionnaire to gain company information such as numbers of restaurants, average revenue/cost per cover etc. The aim of the interview will be to find out the way cost control strategies are implemented. The principles they adapt to maximize their profits.

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9. DATA COLLECTION AND ANALYSIS

The researcher intends to perform the research in the organization where he is employed and therefore has been granted access to carry out the interviews and survey. In addition, it is believed that the researcher may require at least two more organizations to make a comparison of the cost control strategies and how are they implemented. The researcher is confident that he will be able to gain the required number of participating organizations in the research.

Interviews:

The researcher intends to conduct the research in the organization where he is employed. Hence to reach to the top level managers would not be a barrier. The interviews will be planned and organized well in advance, without disturbing the outlet operations. To make the most out of the interview of the managers, researcher plans to use some tools like spidogram, voice recording and collect relevant samples of past cost control if available. This will make the research more effective. According to (Zikmund. W, 2006) in an interview where is a face to face personal interaction between the interviewer and interviewee (respondent) has several benefits that help researcher obtain complete and precise information. The researcher highlights in gathering information through the interviews as face expression can be taken into consideration.

(Zikmund. W, 2006) statement is very important as it is considered that 70% of the communication is a non verbal communication.

Questionnaires:

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The researcher intends to prepare a questionnaire for the top level managers in operating department of an hospitality organization. Questionnaires will be based to find out different strategies, methods and plans made by top level managers. This will help the researcher in gaining knowledge about how the practical budgets are made compared to the theoretical.

Survey:

According to (Vaus De D. A, 2002) a survey is not just a particular technique of collecting information; questionnaires are widely used but other techniques, such as structured and in-depth interviews, observation, content analysis and so forth, can also be used in survey research. The distinguishing features of surveys are the form of the data and the method of analysis.

According to (Zikmund. W, 2006) the main purpose of surveys in research is to collect primary data, which is assembled specifically for the research.

Survey is something asking people who are respondents for information using either verbal or written questions. It is better to conduct a survey in written form so that information can be kept as a record.

10. VALIDITY AND RELIABILITY

Validity:

The researcher intends to use of multiple sources of evidence, structured interviews and questionnaires (both open and closed question). The design of questions and survey will be based on understanding the cost control strategies, the interview and questionnaire will be used to make sure questions are understood as intended. (Saunders, et al 2008). If allowed by

the respondent the researcher also wishes to record the interviews for future. To generalize over two organizations the cost control strategies multiple theoretical methods will be considered.

According to (Saunders, et al 2008) the structure of interview and questionnaires must be consistent and understandable to each individual.

Reliability:

According to (Bryman, et al 2008) a research can be reliable when there is stability. The research can be stable when results are stable. The result of group of people or individual must not fluctuate. There is stability in research when the same process is used with everyone. The way of questions and interview must be same. Surveys to back up the interviews, and obtain views from different organization managers, for better understanding and in depth knowledge of the subject.

According to (Saunders et al 2008) the participants involved in should understand the research in a same way; they must be asked the same questions in same way.

11. RESEARCH ETHICS

The top level managers in hospitality organizations where researcher intends to research will be given a clear written description of the purpose, scope, and intended outcomes of the research. The name of the participating three hospitality organizations and the participating top level managers in the research will be kept confidential. The information gathered during research about the organization will not be presented in dissertation for the confidentiality of the organization. The research is being carried out as a

academic requirement and no other intentions. The interview questions and questionnaires will be designed to examine only the strategies of forecasting and budgeting, nothing apart from that. The research interviews, surveys, or questionnaire will not be aimed at finding any other information which is not related to this research.

According to (Klein and Myers, 1999) suggest to use a hidden agenda which ensure confidentiality of the participant organizations and the individual participants in the surveys.

12. TIME SCALE

Gantt chart is a type of bar chart that illustrates a project schedule. Gantt charts illustrate the start and finish dates of the terminal elements and summary elements of a project. Terminal elements and summary elements comprise the work breakdown structure of the project. (Wallace. C, 1952)

The plan for the research project timescale is shown in the GANNT CHART. A brief summary of time taken from presenting research proposal to dissertation is shown below.

13. BUDGET

The researcher has spent about GBP40 to GBP50 approximately on preparing this research proposal.