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From Cost Accounting to Customer Accounting in the Hospitality Industry – a Constructive Approach

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From Cost Accounting to Customer Accounting in the Hospitality Industry – a Constructive Approach

Abstract: The objective of this research project is to analyse and identify the role of tools used in the restaurant industry to improve resource management efficiency and performance, to develop and test the Experience Accounting tool, and to test and evaluate if this particular system is the system that could fill a gap in the hospitality industry.

The research is based on the notion that the hospitality business is part of the experience industry and is producing experiences rather than a plate of food and a bed to sleep in.

By using a constructive approach to first review the current situation and then use a case study to test and try to establish the practicality of the new management accounting tool, the goal is to lay the foundations for a tool that could be used by the practitioners in their quest for better utilisation of the resources at hand, by producing experiences better aligned with the guests willingness to pay for experiences.

The research identified a need for more sophisticated management accounting methods. Further, the study resulted in a new management accounting tool - Experience Accounting, which takes a step from cost accounting towards customer accounting. This new tool was received well by the practitioners involved in the Swedish restaurant business. The tool also contributed a valuable ad-hoc feature in terms of a possibility to get a snapshot of the business performance at any given time, as the use could identify the current performance compared to historic data, pre set aims or budgets. It could also be applied by managers or consultants as a benchmarking feature compared to industry standards.

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Content

Acknowledgments

1. Introduction

Is the restaurant industry in tune with reality? If so, does it have the tools to manage its operations efficiently, and if not, how should such a tool be constructed to enhance the industry's full potential? One can argue that the restaurant industry produces more than just a plate of food to relieve hunger. The restaurant visits today are far more complex and every part of the meal is part of the experience. Every effort the restaurant makes, or allocates resources to, should add to the guest's perceived value and satisfaction and ultimately the whole experience.

But the standard management accounting tools in restaurants today are not taking this into consideration; instead most restaurant managers are still calculating and developing budgets as if they were producing products, not experiences. This gap is to a certain extent related to the availability of management accounting tools and the design of these. And as most business owners, regardless of industry, who want an efficient performance, would need tools to steer the firm in the right direction, it would evidently be beneficial with a tool that is in tune with reality.

By simplifying the notion of what is actually being produced in the industry, several dilemmas or problems could arise. Apart from the likelihood of running a restaurant that because of poor resource management is ignoring what the guests actually want and therefore are willing to pay for, it could also create ineffective strategic decisions. Important business strategies, such as pricing, budgeting, resource management, cost allocation, and performance management could be based on irrelevant measures or metrics.

An industry that wants to progress will need the best possible tools to do so, and in the restaurant industry it would make sense to base such a tool on experiences rather than products. This could be one way of tuning in the industry; to make the production better aligned with what the guests want.

But the apparent lack of a suitable tool is only one part of the problem. Management accounting in general, and more specifically for the restaurant industry, is faced with a gap between theory and practice. While theories are developed, by scholars, consultants, and larger companies, they are often rather limited in their applicability or simply not diffused or spread to the end-users, i.e. the practitioners. In industries based on a vast majority of SME's (small and medium sized enterprises) this problem is even more apparent as the time and money restraints make the diffusion even more difficult. In an industry such as the restaurant industry, with a lot of unskilled labour and a rather conservative approach, the problem is greater still. An efficient tool would therefore both be adopted to the production process in the restaurant industry and developed/presented in such a way that it would bridge the gap between theory and practice.

This research aims to analyse and identify the role of tools used in the restaurant industry to improve resource management efficiency and performance, to develop and test a management accounting tool based on the theoretical grounds that the customer and the perceived experience should be part of such a tool, and to test and evaluate such a tool's applicability and practicability in real operating restaurants and to identify areas for improvement. It is not within the scope of this research to come up with a fully functional new management accounting tool that fulfils all the needs from academia and the practical world, and that has been

4

tested and diffused to the industry. It will serve as a base for this discussion and by combining the need of new developments, a tool that would bring new possibilities in terms of management accounting and the acceptance of the practitioners; it may break new ground and constitutes a solid platform to continue to build from.

2. Background

The hospitality industry - hotels and restaurants - are today producing experiences (the meal, the overnight stay, etc.) with a perceived value for the guest. It could be an exciting experience, such as a fine meal or a stay in a luxury hotel with an expensive price tag attached, or it could be a quick coffee or a few hours sleep in a budget hotel. In all cases, the perceived value of the experience would need to match the price charged. If not, the guest would not find it good value and turn to other alternatives. The ideal would be to use the resources at hand to produce a product or service that creates best possible value for the guest. The guest will then be happy with the consumption and not only come back, but also recommend the establishment to other people. By using the resources right and efficiently, the firm should be able to enhance the profit at the same time - not only by increased business - but also by a leaner production process.

There is a need for new and better methods for resource management (F. Mitchell, 2002). This is not specific to the restaurant industry; it is valid in many aspects of management accounting. A proportion of new management accounting techniques seem to be deriving from consultants or managers in the industry with the researchers there as bystanders, ready to analyse and comment on already existing ideas (F. Mitchell, 2002).

One way of researching resource management would be to look at what the large affiliations have developed in terms of new tools for the industry as a whole. If looking at it from the FAMM (Five Aspect Meal Model), four of the aspects in the model (Room, Meeting, Product, Atmosphere) were supplied by the chains/affiliations, but the affiliations left the fifth aspect (Management Control) rather untouched (Carlbäck, 2008; P. Jönsson & Knutsson, 2009). There is also a lack of relevant research in management accounting in the hospitality fields and the emphasis should be shifted to this vital area (Dittman, Hesford, & Potter, 2009).

By using a constructive approach and an aim to develop a useful management accounting tool for the industry based on existing ideas, the objective is to bridge this gap and create a tool better aligned with the needs of the hospitality industry. Cost management and resource management are some of the most debated and discussed issues within management accounting (Kaplan, 2006). As the restaurant and hotel industry produces experiences rather than products, the reasoning behind the accounting tool is to base it around the production of experiences (Andersson, 2006) and use the results to better allocate the resources at hand to what the customers are willing to pay for – to go from cost accounting to Customer Accounting (CA). While the focus before has been biased to cost as the most important parameter in the management accounting techniques, the idea is to use the customers perceived value as a base for the tool. In this case an alternative approach to customer accounting, where the actual customers willingness to pay is used as one important metric in the model as compared to previous more marketing oriented models which mainly are used for loyalty analyses and customer profitability analyses over its life time.

The idea of bringing in actual customers' or guests' valuations of services and products produced is becoming more important, as is exemplified by the VCM-model (McNair, 2003; McNair, Polutnik, & Silvi, 2001). This way of thinking stems from work relating to the experience economy (Pine & Gilmore, 1999) and seems to attract interest from both the research community but also among the practitioners.

A constructive approach (Kasanen, Lukka, & Siitonen, 1993) should not only add valuable knowledge about the present situation, but also lay the foundations for future development of an accounting tool based on these ideas, as the constructive approach is solving a problem through the construction of for example a new model (Kasanen et al., 1993). Kasanen et al.'s (1993) study shows that only a limited amount of research aims to solve a problem via the construction of something new, the research agenda is instead focusing on analysing, measuring and commenting on other peoples work.

This paper will be outlined in the following way; a theoretical review, a demonstration of the applicability of the developed solution (Experience Accounting), a demonstration of the theoretical connection, an examination of the applicability, conclusions and finally the articles.

3. Theoretical Framework

As a certain topic for research has been identified and a lack of a suitable tool for the industry has been established. A more in-depth review of management accounting in general and management accounting in the hospitality specifically, should provide a more transparent picture of the current use of management accounting tools in the industry. This section is organised as outlined in Figure 1. The aim of the section is to draw conclusions from this part to develop a solid foundation for the creation of a new tool. After the review of the literature relating to the hospitality industry (Figure 1) and the more common accounting techniques and methods (Figure 2), a description of the theoretical foundations for the EA (Figure 3) will follow in order to create a base for the development and testing of the tool.

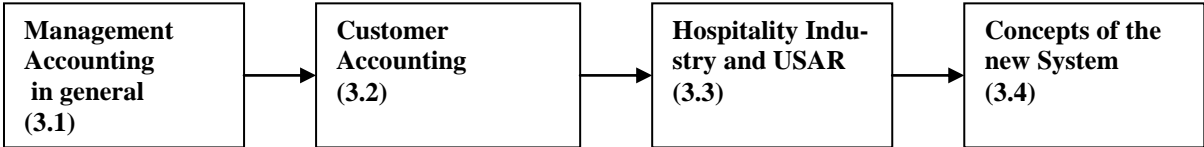| **Management Accounting in general (3.1)** | → | **Customer Accounting (3.2)** | → | **Hospitality Industry and USAR (3.3)** | → | **Concepts of the new System (3.4)** |

Figure 1. Outline of the first part of the section theoretical framework

3.1 Management Accounting in General

The purposes behind the accounting in most industries, including the hospitality industry, could be described as follows (Moncarz & Portocarrero, 2003):

- Financial   - to record all transactions
- Cost   - identify and control cost
- Tax   - compute taxes due
- Auditing   - verify accounting data
- Managerial   - for management decision making

Financial, tax and auditing will all be part of the normal accounting activities and will in most industries be compulsory in order to be able to fulfil the regulations and norms of a specific country. It will also constitute a base for certificates and licenses.

In the Introduction and the Background sections above, some theoretical topics was identified and will be described further in the following section. It is not supposed to be exhaustive, but is based on the occurrence of these systems in the literature relating to management accounting in the hospitality industry. They are not necessarily the most common in practice, but the ones mentioned in discussions of the current situation, or in possible developments for the future. Figure 2 gives an overview of the management accounting tools presented in this chapter. The illustration is a description of the various techniques used and the amount of cost focus as opposed to customer focus that is entailed in the tool. The methods based on a cost approach are to be found at the left side of the illustration and an increasing amount of customer focus will move the method to the right.
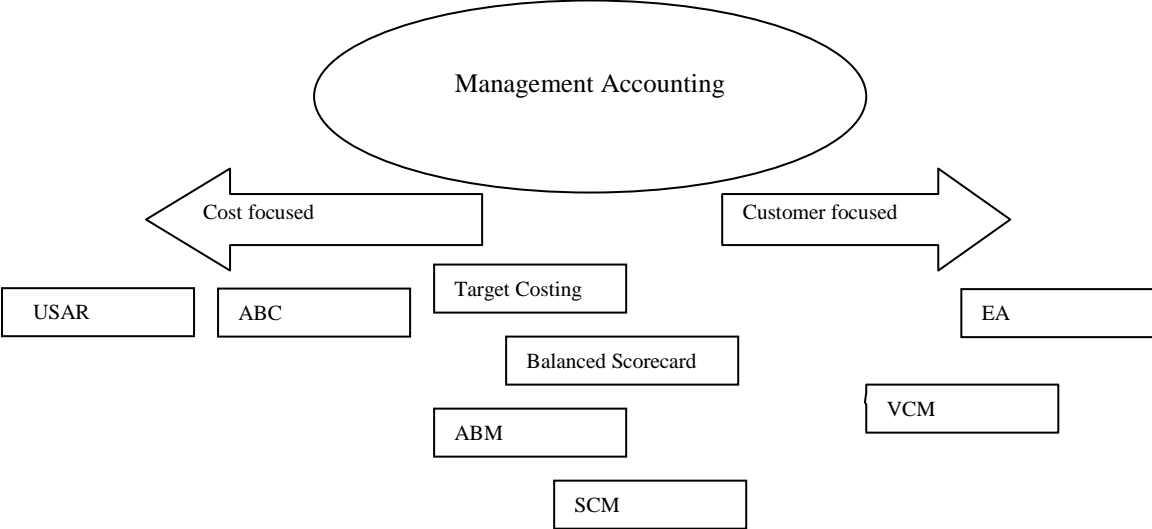

Figure 2. Important management accounting techniques with a customer focus

There are several attempts in the literature dealing with the challenge of relating customer value, price and cost to try to create new and efficient management accounting techniques (McNair et al., 2001). One of the most important methods and one that has attracted a lot of interest is *Activity Based Costing* (ABC) (Cooper & Kaplan, 1991; Kaplan & Cooper, 1998). ABC is built on identifying activities and assigning cost, of each activity, to all products and services, with focus on indirect costs. This helps the management to estimate the cost of each product and service and this can be used to measure profitability and price structure. The main use is for understanding product and customer cost and profitability and as a foundation for pricing, outsourcing or process improvements. With ABC it is possible to find the links between activities and resource consumption and it could indicate profit possibilities. Based on ABC a company can, with *Activity Based Management* (ABM), identify and evaluate activities, perform value chain analysis and create a base for strategic and operational decisions. *Target Costing* (Shank & Fisher, 1999) is a tool used in management accounting, where the target cost is maximum cost that can be added to a product or service to allow sufficient profit margin, based on the price the customers are willing to pay for such a product. This is mainly used in the early stages of production. Research has shown the possibility of using target costing along the value chain as well (Shank & Fisher, 1999). Another important and versatile management control tool is *Strategic Cost Management* (SCM) where the cost information is used as a base to formulate strategies, implement those strategies and later monitor these implemented strategies (Shank & Govindarjan, 1993). The *Balanced Scorecard* (Kaplan & Norton, 1992, 1998, 2000) has a certain degree of customer focus, but it is limited to build and maintain the relationship with the customers, create and increase new markets. Common for all the above mentioned tools is the lack of connection to the customer or guest perspective. The Balanced Scorecard, as mentioned above, touch on the subject.

3.2 Customer Accounting

If the focus is on overhead costs in the hospitality business, the allocation could be done in a more efficient manner than with current tools. At the same time, the resources at hand could be put to better use (Potter & Schmidgall, 1999) and a tool for this is needed (Heikkilä & Saranpää, 2006) – a tool based on customer accounting. Guilding and McManus (2002) identified the following possibilities with Customer accounting:

1. customer profitability analysis;
2. customer segment profitability analysis;
3. lifetime customer profitability analysis;
4. valuation of customers or customer groups as assets; and
5. a combination of the above.

In all cases the customer is analysed from the companies' perspective and is not included in the actual process, i.e. his or her perception of value created and willingness to pay for this value are not used in order to gain valuable management accounting information. The marketing literature is dealing more with this issue than the management accounting literature. The importance of customer based metrics such as customer satisfaction, customer loyalty and the drivers behind these valuables have been discussed (Helgesen, 2007). On the other hand we have the business metrics such as customer revenue, customer cost and customer profitability (Grönroos, 1990; Helgesen, 2007). The majority of the research in this field is based on a marketing framework and on a contribution approach, i.e. how the customers could be integrated in the marketing efforts of the company. Customer accounting has been more a way of including the customer in the performance measurement as a non financial measurement

(Lind & Strömsten, 2006).The expression Customer Accounting could here be misleading as customer accounting is actually based on the customer and the guest and their willingness to pay (Guilding & McManus, 2002). Customer accounting has to an increased degree been developed around the customer, but the emphasis has been put on the segmentation of customers and the profitability evaluation of customer segments and individual customers and even the profitability of a customer over its lifetime (Cooper & Kaplan, 1991; Guilding & McManus, 2002).

3.3 Hospitality Industry and USAR

In most cases hospitality accounting, in practice, will be based on and follow a pre-defined system or a system that is required by law or tax authorities. The most common systems in hospitality accounting are the Uniform System of Accounts for the Lodging Industry (USALI), Uniform System of Accounts for Restaurants (USAR), Uniform System of Financial Reporting for Clubs (USFRC), but local variations may exist (Harris, 1999). These systems are used as road maps for the responsible person in the company, so that all will follow the same format for recording revenue and expenses. As USALI and USFRC will relate more to businesses with lodging and clubs, we will here focus on USAR.

USAR is a development from the USALI and is used as a common language for restaurant operators and other stakeholders in the industry. It enables the user to analyse certain aspects of the performance and also compare the results to other in the same sector (Fuller, 1983). USAR is used as a tool for cost management, as opposed to resource management. The system is mainly used to identify the following from the income statement:

- Analysis of sales/volume
- Analysis of food expenses
- Analysis of beverage expenses
- Analysis of labour expenses
- Analysis of other expenses
- Analysis of profits

The current systems are based on production of a product or service and not an experience. USAR is primarily used for financial, tax and auditing accounting and gives limited information when it comes to management accounting, producing key figures and something to base future strategies on (Potter & Schmidgall, 1999). It produces accounts that are based on the cost and is not at all indicating the best utilisation of resources - not if these are efficiently applied in the operation and possible changes a different utilisation could add to the performance. It produces certain key figures that are useful, but is as a method, not sophisticated enough to allow for resource management and other more advanced management techniques (Dittman et al., 2009).

The USAR will only give the owner or manager certain key figures such as Gross Profit (GP), Net Profit, Payroll and other indicators that could be used for comparing the operation to different years or other operations. The USAR is to a large extent used to relay financial information to stakeholders, owners, managers, creditors, governmental agencies and the public.

A typical USAR statement could look like this (Harris, 1999):

	Dollar	%
Sales	100 000	100
Cost of Sales	-33 000	33
G.P	**67 000**	67
Salaries	-32 000	32
Rent	-8 000	8
Water, gas, electricity	-5 000	5
Administration	-5 000	5
Other expenses	-10 000	10
Net profit before tax	**7 000**	**7**

A USAR statement will fulfil the regulatory request and give the management the possibility to calculate a limited number of key figures.

The hospitality business would, based on its nature, therefore have to be analysed in ways adapted to its specific needs. These are examples of key indicators that are important in the hospitality industry (Harris & Mongiello, 2006; Moncarz & Portocarrero, 2003):

- ADR   (Average Daily Rate)
- Check average   (Average amount on bill)
- Occupancy %   (Percentage of room occupied)
- Sales break-even point
- RevPAR   (Revenue per Available Room)
- Profit margin
- Product cost %
- Product yield %
- Contribution margin
- Seat turnover
- Average food spend
- Average beverage spend
- RevPASH   (Revenue per available seat hour)
- Cost of goods sold

This list in not exhaustive and only illustrates some key figures that are used in the hospitality industry. The USAR is only helpful in computing some of these indicators but if the manager will move in to more complex management accounting, where cost management and resource management is emphasized, USAR will not suffice. USAR is limited by the fact, that it is based on the creation of products, not experiences.

3.4 Elements of a New Tool Design

As outlined in Figure 3 a new tool could be designed and developed based on certain elements identified in earlier studies. The figure is based on the factors influencing the new tool development, i.e. concepts where influences have been drawn from in the process of creating a new tool, and these will be explained in more detail below. The reason to why these four have been chosen is partly their common factor of customer perspective and relation to the guest's experience and satisfaction.
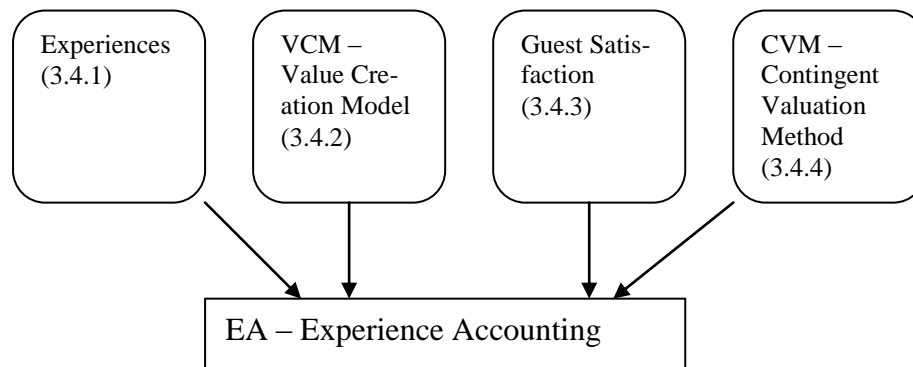
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┌──────────────┐  ┌──────────────┐  ┌──────────────┐  ┌──────────────┐
│ Experiences  │  │ VCM –        │  │ Guest Satis- │  │ CVM –        │
│ (3.4.1)      │  │ Value Cre-   │  │ faction      │  │ Contingent   │
│              │  │ ation Model  │  │ (3.4.3)      │  │ Valuation    │
│              │  │ (3.4.2)      │  │              │  │ Method       │
│              │  │              │  │              │  │ (3.4.4)      │
└──────────────┘  └──────────────┘  └──────────────┘  └──────────────┘

              ┌──────────────────────────────────────┐
              │    EA – Experience Accounting         │
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Figure 3. Elements in the development of EA

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3.4.1 Experiences

The restaurant experience, i.e. the whole experience that the guest is experiencing when visiting the restaurant, can be analysed in terms of satisfaction, perceived quality, and value. In the literature these are not always well differentiated and the weight attributed to each one of them varies, depending on school of thought. Oliver (1999) emphasizes satisfaction; Zeithaml (1988) perceived quality, and Holbrook (1999) value. For a more detailed discussion on the restaurant experience, see Article 2 below.
The most common accounting technique in the hospitality industry is a cost driven accounting, but lately the focus is on the customer management accounting tools based on them (McNair, 2003; McNair et al., 2001). By turning things around to look at the issue from the guests' perspective, a more relevant method could evolve, one that takes the customers evaluation of the goods and services into consideration. Pine and Gilmore (1999) paved the way for a new way of looking at the issue, by saying that in the future the way forward for any business will be the ability to produce experiences and not just products. The competitive advantages would then be based on the experiences a business can offer existing customers and new ones and not only the price, not least in the tourism and hospitality industry (Pine & Gilmore, 1999) . Budget chains in the hotel segment, fast food outlets in the restaurant segment, cheap mass tourism destination in the pure tourist segment and no-frill airlines in the transportation segment have all made a tremendous impact and in many ways changed the way we are travelling and where and what we are eating and drinking. Even if Pine and Gilmore's book states that experiences and the value these experiences present to the guest/client is important, it looks like the budget alternatives are here to stay and will make up an important and considerable part of the industry. But, at the same time, special experiences are seeing a revival as

people are looking for different things, and not just the cheapest alternative. The Canary Islands have reinvented itself as something different than the cheap mass tourist market it used to be (Díaz-Pérez & Álvarez-González, 2005). The boutique hotel segment is very popular and growing (Rushmore, 2001). The same can be said about most forms of tourism, where the trend is shifting from sun & sea holidays to more experience driven activity holidays, themed in various attractive ways; green holidays, experience holidays, nature holidays, active holidays (Stamboulis & Skayannis, 2003). The discerning customers are looking for experiences that create a value and this will have to be incorporated in the business strategy of any business interested in remaining in the industry (Mattila & O'Neill, 2003). But, regardless if the company is using budget driven and experience driven accounting, they will still have to base the offering on producing experiences that perceived as good value for the customer or guest. It will therefore be paramount in most activities to include the customer's valuation of the experience in any sound business thinking. It may not be enough to produce the cheapest deal or best offer, if this is not perceived as valuable for the potential guest or customer.

3.4.2 The Value Creation Model - VCM

As the customer will pay for the perceived value of a good or service and not the cost (McNair, 2003), it becomes more evident that the management accounting tool should be geared towards the customer guest perspective rather than the cost perspective. The Value Creation Model (VCM) is taking into consideration the customer's willingness to pay for a service as a base for cost management. In line with McNair's (2003) ideas, a new tool that is dealing with the question of producing what is right - seen from the customer perspective could improve the situation.

McNair and fellow researchers have developed this further by the VCM model where the market price is the boundary for what any company can charge for any given service or product, understanding the value, from the customer's perspective is the key to a completive advantage. Failure to do so will decrease the company's possibilities in the market place. An efficient company will therefore have to create the highest possible profit margin within the boundaries set by market price, used as a proxy for present economic value, and costs. The guests are willing to pay for value-adding core activities and the difference between this and the market price can affect the profit. Here is room for waste and profit, and consequently less waste would produce a higher profit (McNair et al., 2001). With the Value Creation Model (VCM), McNair and fellow researchers try to align costs to market value approximated by the current market price (McNair et al., 2001).

One of the most important aspects of the VCM model is the value multiplier, which enables the calculation of how much of the firms' cost that is focused on improving the firms' profit and potential. The value multiplier is the relationship between the revenue and costs adding value, and even if it is considered an important feature it only highlights an average level of performance for the firm (McNair et al., 2001). A ratio of four as a value multiplier would indicate that the value-added activities created a value four times the resources used. This again would be advantageous for any manager in the hospitality industry in making strategic decisions regarding how to allocate the resources. The value multiplier has been put to limited use in the literature, but certain research has indicated that it does not produce completely reliable results. (Lindén, Olander, & Strängberg, 2009).

A study in Sweden indicated the VCM model was applicable in the hospitality industry (M. Jönsson & Eriksson, 2006) where some interesting results directly usable in the industry were

produced. If the customer side will be of more importance, it should be interesting to draw from the VCM model and align it with more specific needs of valuable information for strategic decisions in the hospitality industry.

3.4.3 Guest Satisfaction

Guest satisfaction is often measured and used in studies relating to restaurant experiences as a way of quantifying the guest's perception of the total experience. In the overall satisfaction concept, factors such as food quality, restaurant atmosphere, and fairness of seating procedures (Sulek & Hensely, 2004) are included, but there are several more aspects of the meal that could be included. See section 5.2 and article 2 for a more detailed discussion on guest satisfaction.

To create a method that takes the customer into consideration, it will be paramount to identify the underlying aspects of the guests' satisfaction and reasons behind such a satisfaction. While the topic of management accounting is under-researched fielding the context of hospitality, the topic of customer satisfaction is well researched and discussed. A successful customer satisfaction programme could be incorporated in the company's corporate culture and in the management accounting systems (Pizam & Ellis, 1999). If it is important to satisfy the guests in today's competitive environment, the measurement of customer satisfaction becomes more and more crucial (Pizam & Ellis, 1999) and naturally efficient new methods aiding the business performance have to take this into account. The FAMM model is one way of looking at all the aspects of the total guest experience (Gustavsson, Ostrom, Johansson, & Mossberg, 2006). The FAMM model produces a framework for looking at the restaurant business and how to adapt it to the clientele. It divides the restaurant experience into room, meeting, product, atmosphere and management control system, but is limited in its usability as to observe and measure fixed aspects and find solutions to these without including the guest as such. Another interesting and important model do draw from is the Mehrabian-Russell (M-R-model) (Mehrabian & Russell, 1974), which has been modified to suit the dining experience (Ryu & Jang, 2008). M-R takes the inclusion of the guests experience a step further. The model divides it into three parts; environmental stimuli, emotional states and approach or avoidance responses (Mehrabian & Russell, 1974). These models add to the SERVICESCAPE (Bitner, 1992) by bringing in environmental stimuli and emotional issues to get a clearer picture of the whole experience and the factors that make up the important part of any guest's satisfaction (Ryu & Jang, 2008). This research shows the importance of all factors affecting the guest's satisfaction and will be important to include in any discussion on guest satisfaction.

There is a need for a new management accounting method to fulfil these issues and to take the importance of the guest value into consideration, as guest satisfaction is vital for any business' performance and there is a direct link between guest value, guest satisfaction and performance (Gupta, McLaughlin, & Gomez, 2007). By using existing resources to produce maximum quality of products and services the restaurant will create high customer value and consequently, if controlled right, an efficient operation (Kim, Oh, & Gregoire, 2006).
It would therefore be fair to base a new management accounting tool on these grounds, as the tendency now is to use the guest's perception as an important aspect of any strategic decisions in the hospitality industry.

3.4.4   The Contingent Valuation Method – CVM

In order to measure the customer value there are two dominating methods, developed scale and contingent valuation. In order to fulfil the requirements of this research project a method that can measure in monetary terms was needed. The contingent valuation method (CVM) was developed to produce results in monetary values where Willingness to pay (WTP) is the measure (R. C. Mitchell & Carson, 1989). The method was primarily developed for public goods without market price but has been identified as promising in other types of research as well (Wiser, 2007). For a more detailed explanation of WTP and samples of the questions used in CVM-methods, see Article 2 in this compilation.

3.5 Theoretical Results

The theoretical focus in general is turning to more customer based accounting and pricing (McNair et al., 2001) and this could be valid for the hospitality industry. To change from cost accounting to customer accounting is in line with the scope of this research, and by taking the notion of customer accounting a step further and to actually take the customers perception into the equation could lead to new possibilities.

By adding the guests' view of the value, price, experience, and satisfaction, the owner or manager could, in theory, be able to see the operation from the other side - the side of the paying guest. If the business manager knows what the guest wants, and even better, what the guest is willing to pay for this, he or she can align the business after that.

If the target guest for a particular restaurant frequents the place for the service, the culinary finesse or the atmosphere, then the proactive manager could allocate the resources to fulfil this need. If on the other hand, the target guest is after a meal that will relieve hunger, then the manager can allocate the resources as to be able to produce good size portions at a fair price (a canteen for example), at the same time as less money, or resources, are spent on atmosphere, culinary finesse, etc. These efforts would be wasted, as this is not what the guests to that particular restaurant want. To use the resources to produce excessive experiences could be inefficient for the business as these resources could be put to better use elsewhere.

3.6 Design of a New Tool Based on Theoretical Results

To develop a tool more adapted to the hospitality industry and its specific needs could be valuable and the idea would be to draw from ideas and theories in the more current studies presented above. The focus is shifting towards the customer and to be able to include the customer it will be necessary to include the value created and perceived by them.

The tools used today do not give any key figures or data that could be used for such refined strategic analyses. The tools are too ineffective to produce any measures or prognostics, and the person responsible for the business is forced to rely on "gut feeling" or base decisions on inaccurate data or even irrelevant data. This could lead to poor performance, or worse - a poor performing industry, lagging behind other industries where newer methods are being implemented.

While before the focus of management accounting in the hospitality was based on producing products and services as cheaply as possible, regardless if those products of services are the ones wanted by the paying guests or not, there is a now a shift to a more guest based approach (P. Jönsson & Knutsson, 2009). It will therefore be important to look at what the guests want. To rectify this, the Experience Accounting tool (EA) was developed as explained below.

3.7 Experience Accounting –The Method

Experience Accounting (EA) was developed (Andersson, 1991, 2006; Andersson & Carlbäck, 2009) based on the idea of a more customer related tool and previous studies relating to customers' perceived value of obtained products and services (Andersson, 2006). EA is a two-way approach where the cost of the production of experiences is compared to the perceived value of the very same experiences, seen from the guest's perspective.

The basic idea behind EA is to develop a management accounting tool well aligned with the production of experiences based on the above discussion. The foundation is a management accounting tool where the costs are allocated to the production of four major types of experiences. As the restaurant experience could be divided into basic food, culinary finesse, service, atmosphere, company at the table and other guests (Andersson & Mossberg, 2004), but as the two latter to a certain degree fall outside the control of the management, they are not included in the accounts. Four new accounts for basic food, culinary finesse, service and atmosphere were created and the costs for the full year were divided to the four accounts as to what experience they were part of creating. Potatoes, water, salt, salary for kitchen-hand, etc, were allocated to the "basic food" account, while prawns, wine, fillet steak, salary for the head chef, etc, were posted on the "culinary finesse" account. Equally, for the service, most of the service staff wages were posted on the "service account", and music, decor, investment in atmosphere increasing activities were all allocated to the "atmosphere account".

This created a completely new picture, where all costs were distributed to accounts in relation to the experience they produced. By this, every manager could see exactly what went into the production of each guest offering. Simultaneously a guest survey is carried out, where the guests *Willingness to Pay* (WTP) is measured for the actual restaurant experience, but also for an ideal restaurant experience. By using *Contingent Valuation Method* (CVM) (R. C. Mitchell & Carson, 1989), the results are produced in monetary terms, hence comparable to the data from the accounts produced above. The CVM method gives results in monetary terms and has mainly been used to value public goods. It has also been used to put a value on other private goods (Wiser, 2007).

Restaurant owners and managers will now be able to see where the resources are used (based on cost) and what effect they will have on the guests' perceived value. This will indicate if the resources are deployed efficiently or if they could be used better in an alternative way.

In this first instance, the EA was aimed at the restaurant industry, but it could, with small adaptations, be adjusted for use it the hotel industry. The framework illustrated in Figure 4 is presented as a guideline to the development of the new tool.
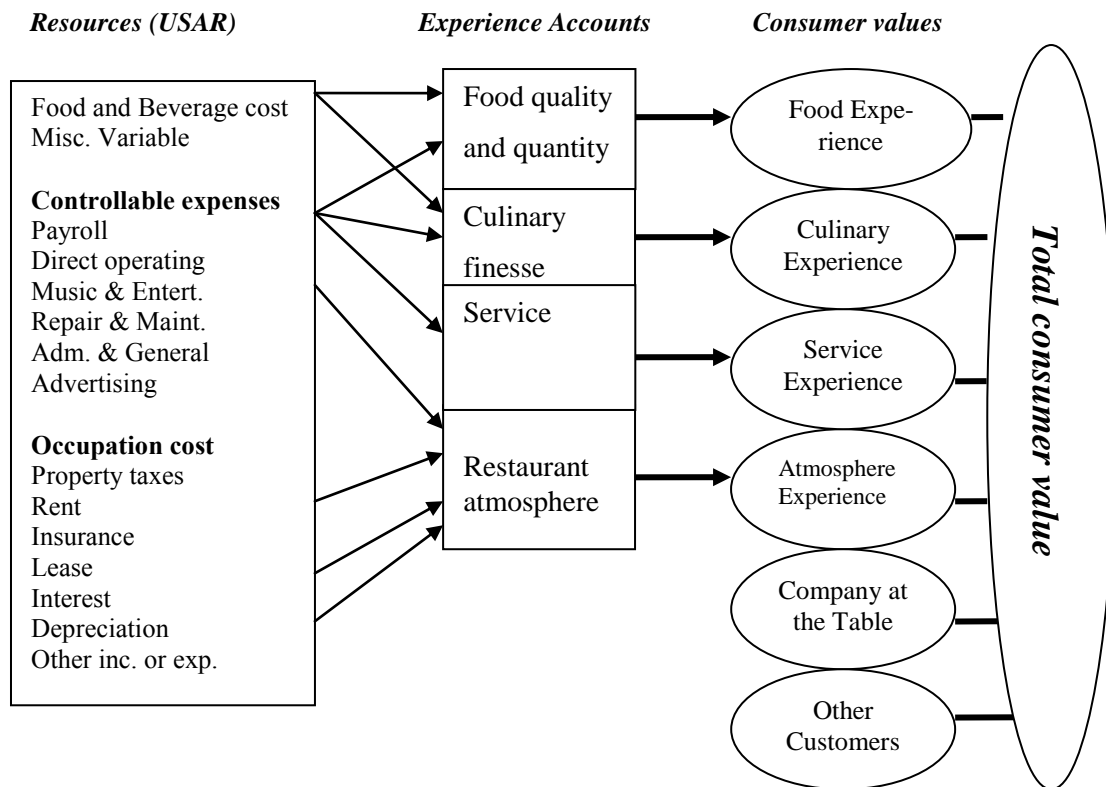
Figure 4. Proposed analytical framework for assessing the efficiency of experience production by a comparison of customer value versus accounting cost. (Andersson & Carlbäck, 2009)

4. Research Questions, Objectives and Research Design

4.1 Research Questions

Based on the discussion above, the following research questions were identified:

A. What is the role of management accounting tools in the hospitality industry?
B. How could a management accounting tool be constructed in order to add efficiency and performance in terms of resource management?
C. How would the practitioners perceive such a tool in terms of usefulness?

4.2 Research Objectives

The objectives with this study are:

A. To analyse and identify the role of tools used in the restaurant industry to improve resource management efficiency and performance.
B. To develop and test a management accounting tool based on the theoretical grounds that the customer and the perceived experience should be part of such a tool.
C. To test and evaluate such a tool's applicability and practicability in real operating restaurants and to identify areas for improvement.

4.3 Research Design

The following section will explain and describe the design and methodology used in this research project.

4.3.1 The Constructive Approach

Based on the discussion above, where a problem has been identified, a theoretical review has been conducted and a possible solution has been developed in terms of a managerial construct, this research falls within a practical field. Management accounting is in several ways an applied and practical field and therefore open to research with a constructive approach. Kasanen et al. (1993) describes the process of a constructive approach as follows:

1. Find a practical relevant problem which also has a research potential.
2. Obtain a general and comprehensive understanding of the topic.
3. Innovate, i.e. construct a solution idea.
4. Demonstrate that the solution works.
5. Show the theoretical connections and the research contribution of the solution concept.
6. Examine the scope of applicability of the solution.

This particular research project follows this approach in all six points (Kasanen et al., 1993). Keating (1995) is also discussing different approaches to a more theory defining research within management accounting. Kasanen et al. are illustrating the constructive approach in the following way:

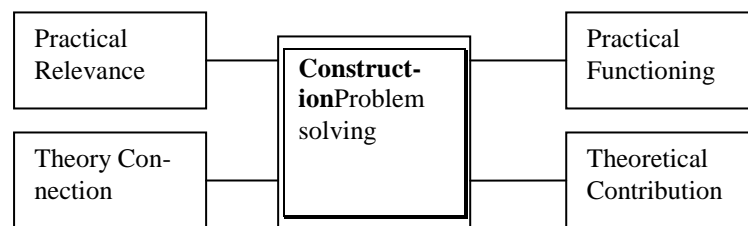| Practical Relevance		**Construct-ion**Problem solving		Practical Functioning
Theory Connection				Theoretical Contribution

Figure 5 - Elements of Constructive Research, adapted from Kasanen, Lukka and Siitonen (Kasanen et al., 1993)

To be classified as constructive research it is necessary with a combination of problem solving and theoretical knowledge.

In this particular project, a practical and relevant problem was identified - in this case a lack of relevant management accounting techniques in a specific industry. To follow the constructive approach, a thorough understanding of the current situation and the literature was obtained. The EA technique was developed and its workability was tested. In the articles the theoretical connections are presented and by presenting the EA to the practitioners the last point, the applicability test, was dealt with. The constructive approach, as outlined above, appeared to be well suited for research within the hospitality industry due to several factors prevailing in the industry.

Management accounting in the hospitality industry is less developed compared to many other industries, as few of the tools have been adapted to the industry. (Dittman et al., 2009). The hospitality industry is dominated by small independent owner-run establishments, where neither interest nor time encourage any deeper interest in research results (Carlbäck, 2011). The

majority of the working hours are devoted to ensure that the business is running as normal and new innovations or techniques are often met by scepticism. To adapt to running a new tool takes time and effort - two aspects the restaurant manager or owner viewed as very scarce resources. The second issue is that the debate takes place in academic journals and at conferences, not the forum that would attract the small scale business owner.

Hence, the research needs connection to the practitioners and the research needs feedback from the user of such tools, not only to verify its applicability, but also to see it diffused in its real environment. Apart from identifying the need and come up with something new - it is also a matter of getting the message across, both to the research community and the business community. This process of testing and diffusing it, would be a necessity for any advancement (Ax & Björnenak, 2004; Björnenak & Olson, 1999). The task, once the need is identified to tackle the issue, would be to produce a valid solution and spread it to the users. The purpose of management accounting tools or cost management tools is to be used in a real business environment and provide a valuable tool for managers and owners interested in taking their business further or make the operation more efficient and leaner. In management accounting research it is often a case of doing research on existing tools and to look at questions as why it is used, by whom it is used and why an alternative is not being used (F. Mitchell, 2002). The innovations come from the companies themselves or to a large extent the consultancy industry. The academia seems to be happy to watch and analyse already developed tools and criticize them or describe to what extent they are being adopted in the real world (F. Mitchell, 2002). There have been some major developments in academia, like ABC and the Balanced Scorecard, but in its wake we can also see criticism (Nörreklit, 2000, 2003) rather than any constructive approaches as to develop new methods or at least work on possible improvements for existing tools (Kasanen et al., 1993; Kasurinen, 2002). Under-representation of constructive approaches in the literature is evident, as few articles deal with matters within this field.

4.3.2 Research Format

Based on the constructive approach, the research project was divided into three parts, each resulting in the publication of a corresponding article. The initial part (article 1) was a review of the current situation, focusing on tools available to businesses in the industry, using the Five Aspect Meal Model (FAMM) as a framework. By identifying what the chains and organisations have to offer potential new members or start-ups, the aim was to analyse to what extent the management control or management accounting side was covered.

The second part (article 2) was a case study of three selected restaurants. The yearly income statements from each restaurant were analysed and re-worked to four experience accounts, simultaneously as a guest survey was carried out to identify the very same restaurants' guests' willingness to pay (WTP).This was achieved by using the Contingent Valuation Method (CVM) (R. C. Mitchell & Carson, 1989). This resulted in monetary values for every guest's willingness to pay for each part of the service experience.

Cost accounts were made in close cooperation with the managers for every outlet to get as accurate figures as possible. As opposed to the traditional USAR (Uniformed Systems of Accounts for Restaurants) the costs were allocated to four experience accounts (Basic food, Culinary Finesse, Service, and Atmosphere) which were developed around existing literature on the subject (Andersson, 1991, 2006; Andersson & Mossberg, 2004; Oh, 2000; Sulek &

Hensely, 2004). The results from the two parts were compared and analysed to produce a foundation for the concept Experience Accounting.

In the third part (article 3) the managers were interviewed in a semi-structured way to be able to identify their opinion on the experience accounting tool. This was followed by a seminar with invited representatives from the Swedish restaurant industry. Again, the results were presented and the participants (around 40 managers/owners) were encouraged to voice their impression of the results and to come up with possible improvements and comments of the applicability of the tool. The questions and comments were duly recorded and analysed by relating the answers to the research questions to see to what extent EA was needed, appropriate and applicable.

5. Results, Analysis & Conclusions

5.1 Article 1- Carlbäck, M. (2008). Are the Chain Operations Simply with it? Five Aspects Meal Model as a Development Tool for Chain Operations/Franchise Organizations. *Journal of Foodservice, 19*,(1), 74-79.

The first phase of the research project, which resulted in article 1, is a review of what the affiliations have to offer growth oriented individual business owners – in this case the hotel and restaurant industry. The focus was on what advantages the chains could bring to individual hotels and restaurants. The aim was to identify the current situation and a possible need for new tools that were not made available through affiliation.

This survey indicated a need for more practically adaptable management accounting tools in the hospitality industry. Management accounting was the one area where the affiliations did have limited offerings to the participating hotels and restaurants.

The independent firm would not have the time, nor the know-how or theoretical background to develop and use management accounting tools. And, the issue of affiliating would not improve the prospects. The reasons to affiliate for a growth-oriented business would, in the hospitality business, be more related to a brand, central reservations systems, central purchasing and loyalty cards and not to acquire more sophisticated management accounting tools or indeed other models aimed at improving the actual performance of the company.

The efforts, related to chain affiliation, are rather concentrated on increasing the amount of customers and at the same time on increasing the margin, not so much on ensuring that the existing resources at hand are utilised to its maximum. The chains and organisations could offer central reservation, central purchasing, loyalty card and so forth, but little that would help a manager and owner to control cost and allocate resources at hand more efficiently. This is not possible to find neither in the literature nor in the practical world of hospitality. But the very same literature stresses the need for more research in the area, more relevant research and more applicable research (P. Jönsson & Knutsson, 2009). Not least in the hospitality business is this evident, as the few studies dealing with the subject of management accounting and hospitality, states the lack of research, rather than presenting new and relevant research. By using the FAMM framework it was evident that most of the focus is put on the room, the meeting, the product and the atmosphere and not the management control part. Consequently,

this part of the research answered the question; "What is the need for a management accounting tool in the hospitality industry?" even though in this case it is more limited to the restaurant business. This would be the natural first step in a constructive approach and this would lead on to the actual construction of a possible solution to the problem.

5.2 Article 2 - Andersson, T. D., & Carlbäck, M. (2009). Experience Accounting: An Accounting System that is Relevant for the Production of Restaurant Experiences. *Service Industries Journal, 29*(10), 1377-1395.

In the second phase (article 2) a tool was developed and tested on three cases – three individual "middle-of-the-road" restaurants. The accounts were re-worked in order to allocate the expenses to "experience accounts"; developed to indicate the implication every expense would have on creating an experience. This was compared to the results from a customer survey based on the customer's perception of experience created and the customer's willingness to pay for every additional step. The study produced a model which gave the business' owners or managers a new insight into the use of resources at hand by including the customer's view of the value created in the metrics and thereby a possibility to assess the whole business strategy around the customers. The results showed clear discrepancies between the way the owners and managers used the resources and what the customer wanted and was willing to pay for. This opens new ways for the astute manager to look at the resources at hand and allocate them in a way that would improve the customers experience and perceived value. This could be small details like certain ingredients in the food, to more capital intensive activities like a refurbishment of the whole local or a focus on more service. Apart from being a valuable tool for any decision maker in the industry as how to improve the business, it also gave anyone with an interest in the development of that particular firm a snap-shot of the performance at any given time. This result could be used by owners, managers and consultants who would like to identify the current situation and to try to find ways of improving the business performance. This phase of the study contributed with knowledge in response to the question; "How could a management accounting tool be constructed in order to add efficiency in terms of resource management?", and was a practically important step in this constructive approach. By conducting the research in a real, practical environment, the implications of such as tool became more transparent.

5.3 Article 3 – Carlbäck, M. (2010). From Cost Accounting to Customer Accounting in the Restaurant Industry *Int. J. Revenue Management, Vol. 4, Nos. 3/4, 403-419*

The last part of this project (article 3) was a presentation and initial test of Experience Accounting to the participants in the initial survey and also representatives for some of the leading restaurant companies in Sweden. The interviews and the seminar, where the functionality of the tool was explained, indicated that the tool was useful, but needed further testing and adaptation in order to be fully integrated in the current business environment. The response from the industry was positive and several ways of enhancing and adapting the tool were suggested. The respondents could see clear advantages with stepping away from the more traditional way of looking at resource management and cost management. The general consensus was that new tools were needed and EA was a step in the right direction. Several benefits were identified, such as a shift of allocation of resources from one area to another, pricing,

strategic investment decisions – just in line with the aim and objectives of the task. When using a constructive approach it is important, not only to get the results tested or evaluated in a real environment among the end-users of such an innovation, but to initiate diffusion and a testing process, where the practitioners not only get to know that such a method is there to use, but to ensure further spreading and hopefully create a debate and discussion around such a development. This part answered the question of how the industry would perceive and react to this new way of thinking with regards to resource management and to what extent the industry is ready to adapt to innovations.
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6. Summary, Managerial Applications, Theoretical Contribution and Further Research

6.1 Summary

The review of previous research clearly indicated a need for research into applicable management accounting in general and in the hospitality industry in particular. The fast moving industry is not up to date with accounting tools relating to the management accounting side of running the business. Not even large companies, like multinational chain operations, can offer relevant management accounting tools. Regardless if the restaurant is independent or part of a chain, the aspect of management accounting, cost allocation, resource management and similar issues, will have to be dealt with in-house and with proprietary tools. The lack of such tools will however make it more difficult for most business owners or managers from going deep into management accounting techniques and will therefore risk the situation of running a company below its true potential. This research has showed that it works and could thereby rectify some of the issues addressed above.

The actual development of the Experience Accounting tool produced some interesting results apart from laying the foundation for a management tool for the hospitality industry. It gave a different picture of the cost allocation and utilization of resources at hand than that of the traditional methods.

Seen in a longer period, the accounting tool, if properly used, presents new ways for operation managers to align the performance of the business with customers' needs. Any restaurant should then be able to draw resources from areas where they create very little value for the customers or guests to other areas where they create better value – something the guests are more willing to pay for. It would however require additional administrative work, something many time-constrained restaurateurs would object to, and consequently, any use of the tool will be based on a trade-off between possible enhanced efficiency and additional time spent on allocating costs and conduct guest surveys.

6.2 Managerial Applications

The Experience Accounting tool is developed for use in restaurants, by restaurateurs and should hopefully enhance the business performance for anyone prone to adapt new ideas and methods. The reasoning behind the tool has been described above and for any manager in the industry it will be one way to, in a possibly better way, allocate resources and costs, to get a clearer picture of how the business is performing – by comparing to what extent the guests are getting what they want, which is fundamental for success in the restaurant industry. The manager will then be able to compare the use of resources with what the guests are willing to pay

for. But the use would require properly maintained accounts and a willingness to spend additional time on a tool that for many, especially smaller outlets could be perceived as time wasting. Many smaller restaurants would neither have the time nor the interest to increase the burden of paper work.

The proactive manager, with an interest in trying new tools, could use Experience Accounting to improve the firm's performance via better cost management, resource management, budgeting and planning.

For the consultant, it adds a useful and applicable tool to get a clear view of where the restaurant stands at any given moment in time and to identify problematic areas where improvements could be introduced. The research shows a need for this type of development amongst the practitioners, since the Experience Accounting was met with enthusiasm from the restaurant community in Sweden, and further testing was suggested.

6.3 Theoretical Applications

Based on the initial discussion, both regarding lack of development of new and specifically dedicated management accounting tools and poorly adopted management accounting techniques in the hospitality industry, the use of constructive approach as a method was decided suitable for this research project. As the aim from the beginning was to identify a relevant and currently existing problem and to find a solution to this problem and finally evaluate its applicability, the roadmap of constructive approach fitted well into the objectives of this project. In the literature the constructive approach is mainly described as a method suitable for similar cases, but there are very few examples of where it has been put into use in a more direct context (Kasanen et al., 1993).

This particular research is on the other hand following the method all the way through and should by this add a valuable contribution, exemplified by a research project that has been conducted based on this method. As some areas of the social science research suffer, like management accounting, from a lack of connection to the need from the practitioners, i.e. some of the research and results are not connected to the problems or questions the industry is faced with and would like answers to, the use of constructive approach could rectify this dilemma.

The involvement of the representatives from the industry in the project did not only present valid and interesting research questions and problems, it also provided valuable feedback in the later stages of the project, in the validation phase. Apart from the fact that the researcher could retrieve valuable comments and suggestions for the further development of the method, a certain kind of diffusion process had also been initiated. With other methods and approaches, the results would be kept within academia for a prolonged period of time and the valuable input from the practitioners will come into play much later. One problem is to relay the message in such a way that practically oriented entrepreneurs actually can grasp the consequences and provide feedback that would be relevant for the development. Many practitioners would accept suggestions and developments from the academia with caution and therefore only participate to a limited extent. This was, and will be, an obstacle with any research including practitioners with limited time at their disposal.

By using the constructive approach, the results, in this case a new tool, have already found its way into the end users – the practitioners – and any further development could be a process of

input both from fellow scholars *and* the industry. The need for, or rather lack of, suitable tools has been identified, and EA has also, in theory, been identified as a useful way of adding to this lack of knowledge and present a platform to build on. The idea to base the resource and cost management on the experiences produced is a theoretical step forward and could be used to develop the research within several areas on strategic progress.

6.4 Further Research

This research project was intended to create a solid ground for the development of new management accounting tools in the hospitality industry, by using a constructive approach. The idea was also to initiate a new way of thinking in order to break away from the traditional tools for this, in many ways, unique business segment. The need was identified, the first general idea of an accounting tool was developed and later presented and tested with the real users of such a tool.

The next step would be to test Experience Accounting in a real environment in one or several restaurants during a prolonged period of time to evaluate its practicability and also identify possible problems. To simultaneously run guest surveys to establish the correlation between the actual performance of the restaurants and the guests' view of the establishment would add to the process further. A thorough follow-up process with detailed interviews to collect feedback from the participants would bring additional knowledge and help the modification process, before a more general diffusion process.

As the Experience Accounting tool, in its present form, would be equally applicable for the hotel industry, it would be beneficial to do a similar research process on initially two or three hotels, in order to get the foundations right and then follow the path outlined above, in order to be able to implement changes and amendments to the tool. In theory, the two projects, restaurants and hotels, would be very similar, and it should be possible to draw from one to the other in order to speed up the refinement process.

It would also be interesting to use the Experience Accounting tool to set prices in one or several outlets to be able to analyse the effects on the overall turnover while the guests experience level would increase, based on a new pricing structure. By using the guest's willingness to pay for certain experiences, there is a possibility to get away from the traditional system, where a standardized mark-up to cover indirect costs is applied to the actual cost of the product. This is normally a fixed percentage calculated on the product's cost. Expensive items such as fresh fish, shellfish, game and expensive wine will then have to carry a proportionally higher part of the indirect costs. If instead a fixed mark-up, i.e. 1 dollar/euro, for atmosphere, culinary finesse, service and so forth is added to the cost of the product, the indirect costs will be more evenly distributed among the different items on the menu. This could result in a better choice for the guests, as items with high cost of sale (COS) could be less expensive and items with cheaper raw material could be a bit more expensive. Guests would then have a better possibility to choose what they want from the menu rather than just the more inexpensive items.

Preliminary calculations and interpretations of the results from the study indicate that the use of Experience Accounting would not affect the total sales, but a more thorough study would be required to analyse the implications on sales and to get more solid empirical data. Suggestions from participating practitioners did challenge his proposal and without a full scale test, it would be difficult to draw any conclusion as far as the effects the use of Experience Account-

ing would have on the income. It could also be difficult or complicated for the restaurateurs to interpret and apply any results to the operation.

A possible integration with the *Value Creation Model* (VCM) (McNair, 2003; McNair et al., 2001) could add both theoretical weight and potential practical advantages for both ideas. The VCM model has been described in a hotel context (M. Jönsson & Eriksson, 2006), but an empirical study aimed at the pure restaurant business in conjunctions with the ideas from the Experience Accounting tool, would certainly lead to opportunities to refine and develop both models.

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Original article

Are the chain operations simply with it?: Five aspects meal model as a development tool for chain operations/franchise organizations

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Abstract

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The issue of belonging to a chain or affiliation, or indeed the right one, is becoming more and more vital for all participants in this fast moving and highly competitive business and could be a key factor for success or failure. However, how does one choose and in what ways it is possible to get the concept right and in line with trends, cultural and social aspects? And what possibilities are there to keep the concept uniform and easy to relay to current and future participants alike? One factor is what the chain actually offers as possible new outlets. If the chain organization lacks clear models, clear concepts or does not grasp new and important trends evolving on the scene, the outlook for individual members looks less promising. This paper examines how the five aspects meal model, as used in the Department of Restaurant and Culinary Arts at Örebro University (Gustafsson *et al.* 2006), might be used to better understand chain/franchise operations and the environment in which they work. Hopefully, it could help chain organizations and individual businesses to develop strategies for the future.

Introduction

Chain affiliation is a growing phenomenon in the international hospitality scene. In the USA, it has been playing an important role for many decades to increase business, create value, drive expansion and establish powerful brand names. Even though it is not new to the European or the Swedish market, theoretical understanding is, to a large extent, undeveloped and this creates a gap for new research to be conducted. The trend is here to stay and industrial data quite clearly show that Europe and Sweden will follow suit in this development and more and more individual hotels and restaurants will join affiliations in order to reap the benefits offered by participating in large organizations with strong purchasing power and a powerful marketing organization, not to mention the added value of a well-recognized brand name.

However, simply belonging to a chain or affiliation is not a guarantee for instant and unconditional success. The concept has to be right, the circumstances relevant for the case and outlet and the organization should match. An already established outlet, or an outlet with unique features, may not benefit at all from carrying an affiliation flag. In fact, research in the USA shows that some individual businesses perform as well, or even better, as affiliated ones in some areas (Mieyal Higgins 2006). For the individual, independent business owner, it therefore becomes a matter of choosing the right strategy, not only with whom

one should affiliate, but also if one should affiliate at all. On the other hand, chains franchising is a strategy for growth for the affiliations, and it is very important for them to be able to attract new outlets and to maintain an ongoing valuable business concept (Cunill 2006).

Both these cases need tools to develop their businesses for the future. A family-owned restaurant needs to decide on strategies to take the business further, while franchisors and chains must ensure that they are fully aware of trends, fashions and habits, and that the concept they offer adheres to these. Losing touch with reality is hazardous for any player in the game. If the chains are no longer 'with it' and cannot create a meal or event that attracts customers at a reasonable price, a major rethink is probably necessary. The process of developing concepts, strategies and business plans could be greatly enhanced for chains and large corporations by using clearly defined, industry-accepted tools. The actual implementation of ideas and the execution of training, supervising and control should also be part of a more structured and organized process. For the individual business owner contemplating affiliation, finding a suitable match for present and future goals and plans for the business would both be easier and more accurate, leading to less risk of failure and fewer expensive detours (Rushmore 1999).

Background

There has been a tremendous development of the restaurant business, not least during the last century. The days following the French revolution and the development of the taverns in England (Gustafsson *et al.* 2006) gave us not only new ways and modes of eating but also many trends and concepts along the way. There have been developments as diverse as fine dining, themed sports restaurants, laid-back coffee bars and the hugely important fast-food market. Concepts and themes are becoming more and more important. The product alone was perceived as the single most important factor in the early 20th century, followed by the judgement from the product and consumer in the middle of the 20th century (Meiselman 2003). The concept has now become far more important and the context is of equal

importance, including expectations and eating locations, which together form a three-factor approach (Meiselman 2003). Even though food quality is still regarded as the most important of the three factors, the consumer and the foodservice environment are considered of almost equal importance (Meiselman 2001).

For the industry, it continues to be of paramount importance to follow and adapt to the changing consumer trends and behaviour. For instance, the American chain Applebee's lacklustre performance is blamed on the company's refusal to respond promptly to changing market trends. Restaurant customers are more and more aware of food quality and relative nutrition, but at the same time they prefer a more streamlined decor (Adamy 2007). Expected trends within the industry are now considered hot property and valuable information for business executives and developers alike. A recent culinary RandD conference in Dallas, Texas, highlighted the importance of trends and also stressed the fact that organic ingredients will be crucial in the future (Thorn *et al.* 2006).

The trends, the environment, service, atmosphere and many other factors, that before were considered of minor importance, are today competing with the previously predominant factor of the food product in driving the business. The fact that the food product should be of the best quality is almost taken for granted and so the other factors, such as service, ambiance and the other diners are increasing in importance. Such customer need is an important part of the development of services and goods, driving demand and price (Andersson & Mossberg 2004). Customers are willing to pay more for factors they prefer such as a pleasant interior and quality service (Andersson & Mossberg 2004).

Five aspects meal model (FAMM) as a theoretical framework

A widely accepted and reliable tool for creating a product in line with the times is much needed in the chain environment. The FAMM, which has been developed to investigate different aspects of meal service in restaurants, could be a very useful tool for chains and individual business alike (Gustafsson *et al.* 2006). The need for a tool is

clear, and chains that wish to flourish need to look at alternative ways of monitoring the meal experience, both within the business and outside.

The idea behind the FAMM model derives from the Michelin Guide's way of evaluating hotels and restaurants and was implemented from the start of educational programmes in the Department of Restaurant and Culinary Arts at Örebro University (Gustafsson *et al.* 2006). The fundamentals are based on different types of knowledge within the field: scientific, practical-productive, aesthetic and ethical. In order to describe the model, a normal restaurant visit is normally used as an illustration. The first aspect is the actual restaurant (room in the model) followed by interaction with staff and fellow guests and interactions in-between these groups (the meeting). The next part of the model is the aspect of the food and beverage itself (product). Together with the fourth aspect relating to all factors concerning economic aspects, laws and logistics (management control system), these parts create the fifth aspect, the actual overall ambiance and feeling (the atmosphere) (Gustafsson *et al.* 2006).

Room

The room is defined as a place where the food is consumed and may be in a restaurant, bar, school, hospital, airplane, train, at home or outdoors. Wherever the room is, it is important for the organization to recognize that the room can and should entail more than the four plain walls. To some extent, this involves creating a space suitable for serving and consuming food, i.e. enough space to be financially viable and at the same time workable. Most restaurateurs would like large eating area (generating money) served by a small but efficient kitchen (cost centre). Anyone working within the business should have knowledge of style history, architectural style, textiles, design and arts (Gustafsson *et al.* 2006). Added to this, it becomes more and more important to be aware of trends, fashions, and economic and social factors. Chain organizations, and indeed individual outlets, need to be aware of all these aspects and to incorporate them in the room's concept and design. If this is not done, for example the room décor may be a complete mismatch with the target clientele or does not blend with the other four aspects in the model.

Meeting

The concept of meeting is especially important in an industry where a large part of the workforce consisted of low-paid, relatively uneducated employees. Many organizations fail to make the most of the impact the meeting, the greeting and the service can provide. By taking a keen interest in this aspect, many chains could greatly improve their performance. The need for new training, recruitment and incentive schemes may be identified by using a model like the FAMM, and could lead to the better utilization of money and resources. However, the FAMM model is not restricted to the staff. Other guests are increasingly becoming a consideration in the provision of foodservice (Andersson & Mossberg 2004). This is a counter-intuitive idea and seems more difficult to formulate and rectify. The 'there-to-be-seen-factor' is important, especially in urban areas, and pulling the right crowd takes more than clever marketing. However, if this need is identified through a systematic method, measures could be taken in order to attract the desired clientele. An issue like this does not depend upon one single factor alone, but a combination of several. For chains, this may be another important issue for selecting new member outlets, as these intangible factors could be very effective for profitability.

Product

The product has always been important and will continue to be, even though competition from the other meal experience factors is increasing. According to Gustafsson *et al.* (2006), the FAMM model stresses the following aspects for evaluating or establishing the product:

Sight: the appearance of the different components and their colours, their shine or gloss, translucency, size and shape and surface texture.

Hearing: the sounds made when you chew as well as the sounds produced by the mode of preparation, e.g. flambéing.

Smell: the aroma of the dish.

Taste: the taste of the various flavour combinations of the dish.

Touch: the texture, for instance, of fish and the contrasts between different textures in the dish. All the senses must be in harmony to create agreement that it was a good meal experience, and they were the inner frames of the experience of the product.

However, other more abstract issues are involved in determining the quality of the product. For example cultural, social, ethnic, fashionable, nutritional and environmental factors all influence the context of the meal experience and the customer's expectations and thus play an important role in the overall perceived quality of the product. This is as important a consideration for business strategists as it is for meal production.

Management control system

Management control systems may not be the most obvious consideration in creating a restaurant because they are usually perceived to be taking place behind closed doors. However, they are vital for an individual restaurateur and absolutely critical for a chain operation. Guests may notice the management control system in terms of the cost of the meal, availability of everything on the menu or the payment procedure. The smoothness of the operation and absence of annoying factors (absent or ill-trained staff for instance) very much relate to the management control system. However, this is the part visible to the customer. Behind the scenes, there is a more complex part, concerned with efficiency, profitability and strategy. Research in Norway examined factors related to the management control system and found that delayed payment at the end of the meal could affect the whole experience so that customers who had to wait a long time for the bill might not visit the restaurant again, even if everything else was faultless (Hansen *et al.* 2004). Early payment also increases the turnover of customers and benefits the profitability of the operation.

Atmosphere

The aspects previously mentioned create a fifth one in the FAMM model, the atmosphere. This is a broad and multifaceted aspect, which may involve a variety of factors, including music, fellow guests, sounds from the kitchen, view, height of the ceiling, interior materials and presence of children. Studies have shown that some factors, such as music, can harm the atmosphere and discourage customers if they are not correctly applied (Gustafsson *et al.* 2006). The atmosphere of catered meals is becoming increasingly important and at the same time possibly more difficult to understand and create. This is especially for the lone entrepreneur, who might be a tremendous chef, but lacks the other aspects of business expertise. Chain operations offer great experience and knowledge and the financial muscle to be able to employ consultants and develop strategies.

Discussion

Development is progressing at high speed in the tourism industry and it is likely that the pace will continue. The restaurant industry follows suit. More disposable income, more leisure time, more discerning customers, and increasing awareness of health and environmental aspects are factors taking the industry to new and challenging routes. It becomes ever more crucial to know the trends and preferences of competitors and customers alike. A trend analysis in Sweden described a completely new scenario in terms of consumption and habits in the future. Use of the Internet and other multimedia will change as new generations come of age, leading to a vast array of services and products either new, or representing brand new business and distribution models. The person or business that can anticipate this will be in a very unique position (Lanvin 2007).

This not only puts pressure on the individual restaurateur, but also, perhaps even more, on chain operations affiliations and franchises. If these allow themselves to become dated, or are unable to follow trends, they will lose market share and perhaps disappear, first from the international and then from the national stage. As they acquire new outlets, new opportunities will appear and adaptation may become more stringent. On the other hand, affiliation may become more vital for the individual operator. The wrong decision could prove fatal for the business and be very costly (Cunill 2006).

Certain operations, notably fast-food restaurants, have become, or are increasingly becoming, global. Cooperation rather than conflict is expected to be the order of the 21st century (Parsa & Khan 1993). Successful companies may gain an advantage through segment diffusion, employee empowerment and maximization of brand equity (Parsa & Khan 1993). Fast-food restaurants probably represent the vanguard of the whole industry in terms of globalization and eventually every big player may have to follow this path.

Menus are expected to change dramatically and may, for example, have to include genetically modified food in order to meet the nutritional demands of aging baby boomers (Parsa & Khan 1993). The same may well be the case for equipment and supplies as demands increase for higher quality and efficiency (Levin 2007). The growth in coffee bar establishments has created a demand for new equipment, for instance for heating sandwiches and serving light snacks (Levin 2007)

Hospitality companies are increasingly developing and managing multiple brands as a route to growth (Laroche & Parsa 2000). Such a strategy will not flourish if the new concepts do not reflect consumer preferences or fashions. In Spain, where the development of chain operations is relatively new, fast-food outlets have been rolled out in most new shopping malls. However, the concepts in which they have been created seem to be somewhat artificial, and based upon North American concepts: burger joints, taco places and pizza parlours rather than developing from actual demand. It appears that several aspects of the FAMM model may be missing. This is clearly a way of creating a rapid expansion, mainly financed by the franchisees, but the long-term viability is doubtful. The concepts are artificial concepts and their function has not been tested ready for a nationwide roll out. In Sweden, by contrast, such developments are mainly concentrated in the fast-food, sports bar and coffee bar segment. The concepts are tested and verified before expansion takes place. On the other hand, development is still very limited and there is clearly much further scope.

Franchising is probably the most used strategy at present for developing new restaurant chains. A study of 94 foodservice chains revealed four distinct groups relating to the strategic use of franchising; manager-scarce franchisors, money-scarce franchisors, franchising minimizers and seasoned veterans (Ketchen *et al.* 2006). The first two groups consist of relatively young companies that take up franchising to gain access to resources in a cost-effective way. On the other hand, franchising minimizers avoid franchise-related agencies because they want to maintain control over strong brand names and complex operating systems. Seasoned veterans have many years in business and are not concerned about resources problems or agency concerns. They made modest use of franchising as a growth strategy, with a steady growth and sound financial position (Ketchen *et al.* 2006).

One only has to take a brief look at high streets and shopping malls to see the prevalence of franchising in the foodservice industry, but the true picture is more complex than one thinks. Guests and franchisees are becoming more aware and trends and fashions are changing rapidly. By using models such as the FAMM, many poor decisions could be avoided, while better business models could be developed. Another interesting trend is that financial firms are now actively acquiring restaurant chains. With their help, many restaurant companies now acquire small brands for development (Duecy 2006). Another aspect of the development of cooperative organizations such as franchise and joint ventures is agent theory (Combs & Ketchen 1997). This will minimize the cost of monitoring each outlet, and hence, speed up the expansion at a lower cost.

Conclusion

This paper has identified the current trends affecting the restaurant industry and the way in which these affect individual entrepreneurs, affiliations, franchises and chains. The restaurant industry is a vivid, complex and potentially expansive entity, which will undoubtedly continue to thrive. Although individual restaurant operators will always be important, the chains are also here to stay in whatever cooperative organizational form they may take: franchises, joint venture or fully owned. All of these depend upon having a clear concept and business strategy. Without a firm basis of this kind, the chances of survival diminish drastically in a fiercely competitive market.

Models, such as the FAMM, have an important role to play in developing such concepts and strategies. The model has potential for use in a number of ways, including: concept creation, formulating strategies, the selection of new outlets and the selection of possible outlets for assimilation. In addition, individual businesses could use it to select chains or organizations with which to affiliate

This study paves the way for future research into chains and independent restaurant organizations, where the FAMM will provide important theoretical underpinning. Hopefully, it will also add to understanding the chain/independent relationship and make the matching process between multiunit outlets and potential partners easier and more efficient. In any case, it should help the researcher identify interesting and valuable results from the actual field study.

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Experience accounting: an accounting system that is relevant for the production of restaurant experiences

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Experience accounting: an accounting system that is relevant for the production of restaurant experiences

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Restaurants are clearly part of the experience industry but managers get little information and support from the accounting system in their efforts to create memorable meal experiences for their customers. The objective of this study is to empirically assess how an accounting system can be better aligned with the production of customer experiences. First, total costs are allocated to the production of four major types of experiences in a restaurant: basic food, culinary finesse, atmosphere, and service. This is followed by an analysis of customer evaluations of a meal experience categorised into the same four components. The study is based on empirical accounting data from three restaurants and an explorative study of how their customers evaluate an ideal as well as an actual meal experience they had in that restaurant. Experience evaluations are made in monetary terms, using the contingent valuation method, and the value of an experience can be compared with the cost of producing it. The analysis of the production cost compared with the value created indicate that, on average, the restaurants need to reallocate resources from service and basic food expenses to invest in the interior atmosphere of the restaurant to meet customer expectations.

Keywords: hospitality; management accounting; experience; value; willingness to pay; experience accounting

Introduction

Research on experiences and the experience economy has introduced new concepts and new perspectives in management and economic analysis (Pine & Gilmore, 1999). The hospitality industry is in many ways a core sector in the experience economy. Excitement and novel experiences for customers are major outputs for the hospitality industry and research clearly indicates that there is a demand for experiences and that customers' excitement influences customer satisfaction (Russell & Pratt, 1980). Satisfied customers in the hospitality industry also tend to become repeat customers and provide family and friends with positive feedback regarding their experiences (Gibson, 2005).

On the supply side, many restaurant managers see themselves as being part of the experience industry and they are aware of the fact that the restaurant experience depends on much more than what is served on the plate. Studies in hospitality management also clearly show the importance of a restaurant's physical environment (Ryu & Jang, 2008a, 2008b), food quality (Sulek & Hensley, 2004), and service personnel (Andaleeb & Conway, 2006). But when it comes to operational management and investment decisions,

managers get little information and support from the accounting system in their efforts to create memorable restaurant experiences for their customers.

A major point of this study is to empirically assess and to discuss how the development of accounting systems could be better aligned to the challenges from a more customer-oriented and experience-oriented style of restaurant management. The first step will be a cost analysis of the restaurant based on the production of experiences rather than the production of food on the plate. Four major components of the restaurant experience will be used in the accounting scheme namely the basic food account, the culinary finesse account, the service account, and finally, the atmosphere and physical environment account of the restaurant.

The second step will be an analysis of customer value (cf. Johns & Pine, 2002). Based on the model of the service encounter (Baker, 1987; Bitner, 1992), three major factors of the restaurant experience will be assessed: tangible factors, service employee factors, and customer factors. The customer value of a restaurant experience will, in this study, be categorised into six components: the 'basic' food experience, the culinary experience, and the physical environment of the restaurant together account for *tangible factors*. The *service* experience factor and, finally, the *consumer factors* that are accounted for by two components: company at the table and other guests in the restaurant.

Customer value will not be measured on an ordinal scale, as is the dominant approach in consumer behaviour research, but on a ratio scale in terms of monetary values using contingent valuation methods (Mitchell & Carson, 1989). This methodological approach makes the customer value compatible with cost accounting information in a restaurant. The third step will, therefore, be to compare the accounting costs of producing each of the four components of the restaurant experience with the four values that customers attach to the same four experience components.

The study is based on case studies (cf. Harris, 1996) of three restaurants, including independent as well as chain affiliated restaurants. Empirical accounting data from each restaurant will be compared with the results of explorative customer surveys that have been conducted at the three restaurants. The objectives of this study are to

(1) reallocate costs from a standard system of accounts to an experience-based system of accounts that shows the costs associated with the production of various components of a restaurant experience;
(2) analyse the value that customers attach to a restaurant experience and to various components of such an experience;
(3) assess whether an experience-based system of accounts yields relevant information for management accounting and management control.

Restaurant accounting systems

The uniform system of accounts for restaurants (USAR) provides a well-established framework for restaurant accounting systems. Other national standards have been produced, e.g. in the UK through the Economic Development Committee for Hotels and Catering, but USAR, originating from the National Restaurant Association of USA, has, for several reasons, become internationally the most widely used standard.

The USAR provides little opportunity to analyse cost behaviour and no prescription for how fixed and operating costs should be controlled, according to Potter and Schmidgall (1999). In spite of the fact that fixed costs are very dominating in the hospitality industry, detailed analyses of fixed cost and fixed cost behaviour are lacking (Heikkilä & Saranpää, 2006).

In the manufacturing industry where fixed cost had grown in importance and become dominant, Johnson and Kaplan (1987) suggested that traditional methods for product costing had 'lost relevance'. The new methods they suggested, called activity-based costing (ABC), were based on a more thorough analysis of cost behaviour in order to understand the drivers of fixed cost. These cost drivers were used for a more relevant distribution of fixed cost in product costing.

ABC has developed into ABM – activity-based management (Cooper & Kaplan, 1991) – with a broader scope, not only limited to costing but also including budgeting and management control (Gupta & Galloway, 2003). ABM is, just like ABC, based on an examination and an analysis of the production process with the objective to identify activities that add value and use resources. The ability of ABC/ABM to solve cost management problems was probably overestimated in the 1990s, and Armstrong (2002) argues that much consultancy work in this area has been futile.

ABC has been implemented in the healthcare sector (e.g. Chan, 1993) and in the airline industry (Tsai & Kuo, 2004). Krakhmal (2006) suggests an ABC approach for hotel accounting using three levels of accounting: resources (e.g. raw materials, labour) are allocated to activities (functions providing services to guests) by the use of 'resource drivers'. Activities and the cost of performing activities will be allocated further to cost objects by the use of 'activity drivers'. Krakhmal (2006) states that a stronger accounting focus on activities can potentially improve service delivery to customers. Collini (2006) also develops an ABC customer-focused approach particularly suited for the case of joint revenues. Harris and Mongiello (2006) give much attention to 'cost behaviour analysis' in the profit planning framework they suggested.

The use of metrics such as gross operating profit per available room (GOPPAR), revenue generation index, and revenue opportunity model are more related to businesses with room capacity (Cross, Higbie, & Cross, 2009). GOPPAR measures revenue from rooms, food and beverage, and other activities (Banker, Potter, & Srinivasan, 2005), but is of limited use for the restaurant business. Revenue per available seat hour (RevPASH) is a useful tool, although it requires considerable efforts related to data collection and computing (Kimes, Barrash, & Alexander, 1999).

A study of the use of accounting information by managers in the hospitality sector underlines the need for appropriate accounting information for managers (Downie, 1997). The pace of development of new accounting ideas in the hospitality industry seems to be slow. Ideas that have been discussed in the manufacturing industry for almost 20 years are unheard of in the hospitality industry (Raab & Mayer, 2003). This need for development is further underlined by research which indicates that managers are highly concerned about customer satisfaction (Downie, 1997; Mia & Patiar, 2001). It is evident that the practical development of accounting systems in the industry has not yet responded to this situation, although lately the British Association of Hospitality Accountants provide material and practical guides (Krakhmal & Harris, 2008) for hospitality managers who are prepared to develop their accounting system.

The restaurant experience

The three concepts satisfaction, perceived quality, and value are not always well differentiated and there are different schools of thought that put more or less emphasis on either satisfaction (e.g. Oliver, 1999), perceived quality (e.g. Zeithaml, 1988), or value (e.g. Holbrook, 1999). The concepts satisfaction, perceived quality, and value are, however, positively correlated with each other (Oh, 2000).

Satisfaction

Studies of the restaurant experience are often focused on satisfaction. Sulek and Hensley (2004) found significant relationships between customer satisfaction and food quality, restaurant atmosphere as well as fairness of seating procedures. The study carried out in the USA also found indications of the importance of service quality, personnel response, and convenience. Another US study by Andaleeb and Conway (2006) found strong correlations between customer satisfaction in full service restaurants and service responsiveness (0.72), tangibles (0.31), and food quality (0.57).

According to Wall and Berry (2007), diners use the following types of clues to judge a restaurant experience: functional, the technical quality of the food and service; mechanic, the atmosphere and other design and technical elements; and humanic, the performance, behaviour, and appearance of the employees. Even though customer satisfaction is crucial for the restaurant industry, a study by Skogland and Siguaw (2004) showed that there is only a weak connection between customer satisfaction and loyalty.

Elements of the 'service encounter' model fit restaurant services well and the three main components suggested (Baker, 1987; Bitner, 1992) can easily be interpreted in a restaurant context: (1) tangible elements such as food, interior design, music, and lighting; (2) service employee factors; and (3) consumer factors such as the appearance and behaviour of other consumers.

Mossberg (2003) uses a model similar to the service encounter model for an analysis of customer experiences but adds 'image' as a fourth factor. Carlbäck (2008) also includes 'management' as a fifth factor.

Customer value

Value is perceived as an important part of the customers' decision making, together with satisfaction, trust, and commitment (Mills & Thomas, 2008). To ensure this, restaurateurs must ensure that they truthfully represent their product and are able to explore the gap between customer expectations and the performance of the product or service (Mills & Thomas, 2008). Raab, Mayer, Kim, and Shoemaker (2009) discuss pricing as an important part of the creation of value for the guests. The hospitality business tends to focus on high profit margins and on the cost side of production, rather than looking at creating customer value. Woodruff and Flint (2006) stress that there is a need for better in-depth understanding of customer value.

The value of an experience will depend on a personal process taking place in the mind of the customer since experiences take shape internally within a customer (Andersson, 2007). A restaurant can only offer tangibles and intangibles that hold a potential value as an input to an experience that the customer must realise through co-production (Vargo & Lusch, 2004).

Customer value is therefore, to a large extent, determined by the customer through co-production and consumption of services in a restaurant (Grönroos, 2005). Andersson and Mossberg (2004) describe the value of customers' restaurant experiences using five factors: cuisine, restaurant interior, service, company at the table, and other guests. When customers perceive a high level of product or service quality, they generally also perceive high levels of value and satisfaction. Value seems to be the biggest motivator for the customers (Oh, 2000).

Customer value is a concept rooted in economic value and utility, but Holbrook (2006) suggests a wider concept making it interactive and involving a relationship between the customer and the service. Holbrook (1999) also suggests a typology of customer value

based on three dimensions: self/other oriented, active/reactive, and extrinsic/intrinsic which results in eight types of customer value.

Measuring customer value

There are two dominating schools concerned with the measurement of customer value: developed scale and contingent valuation.

Based partly on the typology of Holbrook (1999), an experiential value scale was developed (Mathwick, Malhotra, & Rigdon, 2001) using (normally a seven point) ordinal metric and a large number of questions. A similar scale, the perceived value scale, has been developed by Sweeney and Soutar (2001).

A different approach to estimating customer value is represented by the contingent valuation method (Mitchell & Carson, 1989) whereby estimates are made in terms of monetary values. Willingness to pay (WTP) is the main 'vehicle' used in surveys and contingent valuation methods have become one of the most popular methods to assess environmental values (Bateman & Willis, 1999). The methods are primarily developed for public goods without market prices but applications to private goods present promising opportunities for new research endeavours (Wiser, 2007).

Model

The efficiency in the production of restaurant experiences will be assessed by a comparison between the cost of producing the experience on one hand and the customer value of the experience on the other hand. The accounting information will be based on the *USAR* reallocated to four 'experience accounts' (Figure 1).

The reallocation of expenses to experience accounts will be based on how resources are used and the type of experience a resource ultimately supports. Part of the food and beverage cost such as expenses for rice, potatoes, and pasta will, for example, be allocated to 'basic food and beverage', whereas culinary food ingredients such as costs of high-quality meat and fish will go on the 'culinary finesse' account. Similarly, the payroll will be allocated between 'basic food and beverage' for unqualified kitchen hands, 'culinary finesse' for the chef(s), and 'service' for the waiters and waitresses.

The customer value will be analysed based on the 'service encounter' model. Three main factors are suggested (Baker, 1987; Bitner, 1992):

(1) Tangible factors:
   (i) food (Keng, Huang, Zheng, & Hsu, 2007),
  (ii) culinary experience,
 (iii) restaurant atmosphere (Ryu & Jang, 2008a, 2008b);
(2) Service employee factors:
  (i) service personnel (Andaleeb & Conway, 2006);
(3) Consumer factors:
  (i) company at the table (Fiore & Kim, 2007);
 (ii) other customers (Brocato & Kleiser, 2005).

All in all, six factors will be included in the total restaurant experience and the value of these six factors will be assessed using contingent valuation methods. One reason for choosing this method is that a monetary value will be compatible with production cost, which will make a comparison between the two straightforward. Another reason is the challenge involved in using a new type of metrics in hospitality research that is more
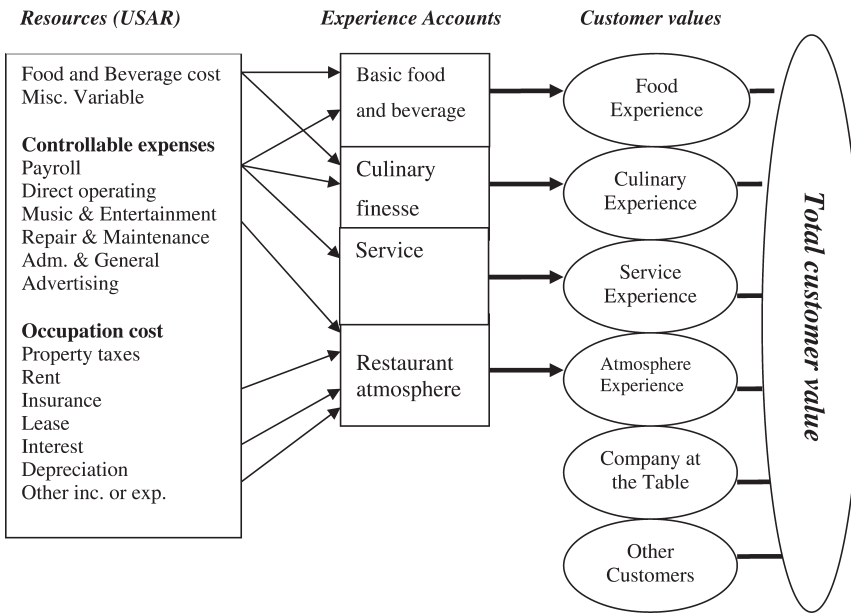
Figure 1. Proposed analytical framework for assessing the efficiency of experience production by a comparison of customer value versus accounting cost.

relevant in an accounting context and also statistically superior to ordinal scales since a ratio scale allows more advanced statistical elaborations of the data than an ordinal scale does.

Method

Three restaurants were selected in different cities. The restaurants were all full service outlets with a track record and filed accounts for several years back. The size and the turnover for the establishments differed, which may give a better picture of possible differences depending on the size of the restaurant.

- Restaurant 'South' is a fairly small restaurant with a French touch, centrally located in a midsized town. The focus is mainly on business lunches and formal dinners and there is no bar area. During the cold months the restaurant seats around 40 guests and in the summer a small outdoor serving area is added.
- Restaurant 'East' is located in a midsized town and belongs to a major hotel affiliation. The restaurant is inspired by the proximity to the sea and seafood is a special feature. Apart from a cosy bar area, restaurant 'East' has seating space for around 80 guests and a very attractive outdoor service area for the warm months. The restaurant is very popular with local guests as well as the guests staying in the hotel.
- Restaurant 'West' is located in one of the best locations in the centre of a major town. The restaurant is comparatively big and can seat more than a hundred guests in the dining room and also has several private rooms as well as a large bar area. During the warmer months, a large outdoor serving area is added. Restaurant 'West' attracts business guests, formal diners as well as a many tourists, due to the location. The kitchen can best be described as international with a Scandinavian touch. The listed building where the restaurant occupies a big part is a unique feature.

Full financial statements from a previous financial year (2007) were collected from each outlet and analysed based on the standardised *USAR* and certain posts estimated with help from the respective owner/manager.

Following this, assessments are made by owners/managers and other informants from the restaurant industry regarding how each cost item in USAR can be allocated to the production of one or more of the four experience components: 'basic food', 'culinary finesse', 'service', and 'atmosphere and physical environment' in the restaurant. It must be underlined that these assessments, although made by people with long experience from the restaurant industry, are made *ex post* and must be regarded only as a rough estimate of the true cost distribution.

In order to evaluate the customer value of the restaurant experience, an Internet-based questionnaire was developed based on the contingent valuation method (cf. Mitchell & Carson, 1989). Guests were asked to estimate a monetary value first on the actual restaurant experience and second on an ideal restaurant experience. The guests were presented with 11 contingent valuation questions. The first question served as a baseline question. The following 10 questions (five for the actual experience and five for the ideal experience) introduced an additional experience component for each question in order to measure the guests' WTP for each step. The results will consequently describe both the WTP for each additional step and each restaurant's actual performance compared with the ideal experience.

Respondents were asked to state the maximum amount of money that they would be willing to pay for the following restaurant experiences:

(1) You are sitting alone in an uninspiring locale and eating simple but acceptable takeaway food (baseline).
(2) You are sitting alone in the actual restaurant where it is self-service and eating simple but acceptable food.
(3) You are sitting alone in the actual restaurant and the service is the same as it was at your actual visit. The food is simple but acceptable.
(4) You are sitting alone in the actual restaurant and the service is the same as it was at your actual visit. You are eating the same food you had at your visit.
(5) You are sitting alone in the restaurant and the service is the same as it was at your actual visit. You are eating the food you ate at your visit. The atmosphere is the same as when you visited the restaurant.
(6) You are sitting together with your friends in the restaurant and the service is the same as it was at your actual visit. You are eating the food you ate at your visit. The atmosphere is the same as when you visited the restaurant.

Questions 7–11 were using the same format as questions 2–6 above, but 'the actual restaurant visit' was replaced by 'the ideal, most exquisite, and most delicious restaurant experience', with answers related to the maximum amount of money the respondent would be willing to pay.

An information letter with the link to the online questionnaire was distributed to a sample of guests in each of the three case-study restaurants during lunch and dinner, and the guests were asked to fill in the forms the day after the restaurant visit. Information letters were handed out by restaurant managers, since the managers preferred not to let researchers disturb customers in the restaurant. This proved to be far from ideal and affected the response rate negatively. After having received an explorative sample of 30 responses, the survey was terminated.

Table 1. Descriptive statistics of an explorative sample of customers at the three restaurants.

Restaurant	Number of respondents	Mean age	% Lunch respondents	% Female respondents	% Private diners
South	11	48	27	27	73
East	9	44	33	33	90
West	10	46	90	50	60
Total	30	46	50	37	73

As indicated in Table 1, the respondents in restaurant 'West' are predominantly lunch customers, which may have influenced the results as the fact that 90% of the respondents in restaurant 'East' pay with their own private money.

Results

First, the experience accounting scheme is introduced by transforming a traditional USAR accounting scheme into an 'experience accounting' scheme.

Then the results from the customer survey of how customers evaluate the restaurant experience in terms of monetary values will be presented and discussed.

Cost accounting in the three case-study restaurants

The detailed profit and loss reports for a full financial year for the three outlets were analysed and costs were first allocated according to the USAR. The breakdown was made with a combination of information from the profit and loss accounts, standard budgetary formulas, and with specific information provided by each individual manager on issues that could not clearly be explained by the figures.

Table 2 is a result of this breakdown and provides an overview of the three outlets in the study according to a standard accounting system, as well as a calculated average for the three outlets. It describes the cost allocation for the restaurants. A comparison of the three restaurants indicates that restaurant 'South' with the smallest turnover is facing a dangerously high food and beverage cost, but has, on the other hand, the lowest payroll.

Table 3 offers a different perspective based on an experience-based breakdown of the various costs. Every cost item from the USAR has been allocated into the four experience accounts: basic food, culinary finesse, service, and atmosphere based on standardised budget methods and information from the managers themselves. The results, presented as an average of the three restaurants in the bottom line of Table 3, illustrate a cost analysis based on producing experiences rather than just a plate of food for the average restaurant.

Table 4 presents the experience accounting for each of the three case-study restaurants. By analysing these figures, it is not only possible to identify problem areas and possible weak areas, but also, depending on the business goals, to take corrective action and focus on creating experiences for which the guests are willing to pay. This could also include those for which the current competitors' guests are willing to pay.

Restaurant 'South' would, for example, as a first step look into the spending on atmosphere and service, where the percentage is lower than the average for the three restaurants. A guest survey or a sensitive manager should be able to get this feel from the guests and could consequently take action in these areas. Restaurant 'East' could, based on business goal and a guest survey, look into the culinary finesse and possibly improve that part.

Table 2. USAR for the three case-study restaurants (GBP).

	Average	%	South	%	East	%	West	%
Cost of sales								
Food and beverage cost	570,484	38	55,384	49	431,257	37	1,224,813	38
Miscellaneous variable	0	0	0	0	0	0	0	0
Controllable expenses								
Payroll	562,563	37	27,869	25	435,010	37	1,224,813	38
Direct operating	134,379	9	10,042	9	49,107	4	336,758	11
Music and entertainment	44,752	3	0	0	3180	0	132,802	4
Repair and maintenance	26,636	2	1091	1	17,606	2	65,198	2
Administration and general	56,920	4	8579	8	119,250	10	42,162	1
Advertising	30,451	2	2921	3	2860	0	85,572	3
Occupation cost		0		0		0		0
Property taxes	66	0	0	0	196	0	20,500	1
Rent	35,621	2	7760	7	81,790	7	21,610	1
Insurance	50	0	0	0	149	0	0	0
Lease	0	0	0	0	0	0	0	0
Interest	4513	0	0	0	19,270	2	12,077	0
Depreciation	5011	0	0	0	15,033	1	0	0
Other inc. or exp.	42,498	3		0	0	0	33,688	1
Total	1,513,943	100	113,623	100	1,174,709	100	3,199,993	100

The same could be the case for restaurant 'West', where the spending on culinary finesse is low compared with the basic food spending. The restaurants' balance between allocating production costs to various aspects of a meal experience varies and this variation should ideally reflect the desired profile of the restaurant and the expectations of each restaurant's customer segment.

Customer value of the restaurant experience

Figure 2 shows the accumulated value of a restaurant experience from a simple takeaway dish to an exquisite dinner in a perfect restaurant in favourite company. The basic need of relieving hunger accounts only for about a quarter of the value. The average actual performance of the three restaurants is also illustrated in Figure 2 and the gap between the ideal and the actual experience widens as more and more components are taken into consideration.

An analysis of each one of the six value components is described in Table 5, which shows that for the average restaurant, customers are willing to pay more for an interesting interior and physical environment than for service and culinary finesse. Customers are also prepared to pay more for an ideal culinary experience but their assessment of actual culinary finesse is much lower. This can be interpreted as customers being prepared to pay more if the restaurant improves its culinary finesse. There is also some scope for improvement of the service. The largest difference between ideal and actual experience is related to the atmosphere and the physical environment in the restaurant indicating that the restaurant managers have not invested sufficiently to capitalise on the WTP for atmosphere that restaurant customers apparently have.

In terms of percentages, there are clear indications in Table 5 that the ideal restaurant experience contains more of a culinary experience and less basic food than the actual

Table 3. Experience accounting for the average restaurant (GBP).

Average restaurant	Total (GBP)	Food	%	Culinary	%	Atmosphere	%	Service	%	Total (%)
Cost of sales										
Food and beverage cost	570,484	305,780	54	264,705	46	0	0	0	0	100
Miscellaneous variable	0	0		0		0		0		
Controllable expenses										
Payroll	562,560	153,886	27	95,791	17	0	0	312,883	56	100
Direct operating	131,955	72,583	55	34,680	26	11,863	9	13,197	10	100
Music and entertainment	45,328	0	0	0	0	45,327	100	0	0	100
Repair and maintenance	27,965	8389	30	5593	20	6991	25	6991	25	100
Administration and general	56,664	16,999	30	16,999	30	5666	10	16,999	30	100
Advertising	30,451	12,180	40	6090	20	6090	20	6090	20	100
Occupation cost										
Property taxes	6899	1734	25	1721	25	1721	25	1721	25	100
Rent	37,046	9261	25	9261	25	9261	25	9261	25	100
Insurance	0	0		0		0		0		
Lease	0	0		0		0		0		
Interest	4026	1006	25	1006	25	1006	25	1006	25	100
Depreciation	5008	501	10	501	10	3506	70	501	10	100
Other inc. or exp.	17,652	4413	25	4413	25	4413	25	4413	25	100
Total	1,496,105	586,734	39	440,761	30	90,568	6	373,064	25	100

Table 4. Experience accounting (GBP) for the three case-study restaurants.

	South (total)	%	East (total)	%	West (total)	%	Average	%
Basic food	46,804	41	154,916	37	1,314,713	41	586,734	39
Culinary finesse	52,292	46	121,399	29	900,686	28	445,672	30
Atmosphere	4151	4	6926	2	209,239	7	90,558	6
Service	10,365	9	136,156	32	775,354	24	373,064	25
Total cost	113,613	100	419,396	100	3,199,992	100	1,496,120	100

average experience in the three restaurants does. The largest percentage difference is related to the restaurant atmosphere and physical environment, whereas the service component seems to be well balanced. There are also interesting results related to what is called 'consumer factors' in the 'service encounter model' (Baker, 1987; Bitner, 1992), i.e. the components 'other guests' and 'company at the table'. 'Other guests' plays a significant role in both the actual and the ideal experience just as 'company at the table' does. Taken together, these two 'consumer factors' seem to account for slightly more than a quarter of the total experience.

In terms of the three factors of the 'service encounter model', the first factor, i.e. tangible factors including the food and the culinary experience as well as the restaurant atmosphere, account for the dominant part of the experience (59% of the actual and 63% of the ideal experience). The service employee factor accounts for 13% of the actual and 10% of the ideal experience and seems to be less important than the consumer factors 'other guests' and 'company at the table', which account for 27% of the actual and 26% of the ideal experience.

A discussion about customer average assessments of the restaurant experience based on customer surveys in three different restaurants may overlook important and interesting differences between the three restaurants. The three restaurants have different images and appeal to different customer segments. Thus, it may be expected that customers' expectations of an ideal restaurant experience differ between the three restaurants. It may also be expected that the actual experience is different in the three restaurants.
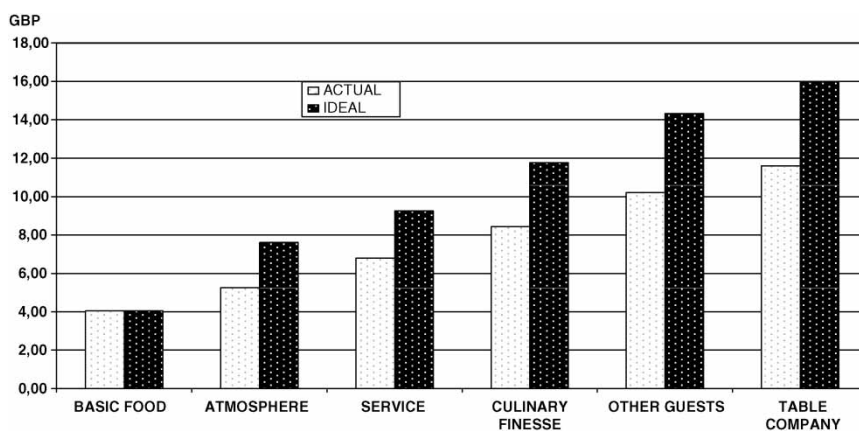

Figure 2. Stepping up the restaurant experience. Accumulated values of the average actual as well as the average ideal restaurant experience.

Table 5. Partial analysis of the average value of six aspects of a restaurant experience.

	Monetary measures (GBP)			Percentages		
Average restaurant	Actual	Ideal	Difference	Actual	Ideal	Difference
Basic food	4.05	4.05	0.00	35	25	10
Culinary finesse	1.63	2.50	−0.87	14	16	−2
Atmosphere	1.22	3.56	−2.34	10	22	−12
Service	1.54	1.65	−0.11	13	10	3
Other guests	1.78	2.56	−0.78	15	16	−1
Company at the table	1.40	1.65	−0.25	12	10	2
Total	11.61	15.97	4.36	100	100	0

Table 6 describes the customer assessments for each one of the three restaurants. A comparison in terms of *the ideal restaurant experience* indicates that customers in restaurant 'West' expect more of a culinary experience and better service than customers at restaurant 'South' and 'East' do. On the other hand, the customer segment that the restaurants 'East' and 'South' appeal to seems to be more sociable and put a higher value on the consumer factors. 'Other guests' and 'company at the table' seem to be particularly important for customers to restaurant 'East'. 'The atmosphere' seems to be very important for customers of restaurant 'South'.

The actual restaurant culinary experience is quite different from the ideal in all three restaurants. Customers seem to get quite an unsatisfactory culinary experience at restaurant 'South', whereas customers at all three restaurants get more of a 'basic food' experience than what they expect from an ideal restaurant experience. Customers at restaurants 'East' and 'South' are positively surprised by the service, whereas customers at restaurant 'West' seem to be disappointed with the service. The message from customers at restaurant 'South' is clear: less of basic cooking and more fine cuisine. Restaurant 'East', on the other hand, delights its customers by providing a higher culinary experience than expected.

The restaurant atmosphere and physical environment seem to be more important for customers at restaurants 'East' and 'South' although they do not get much of that experience. On the other hand, customers at restaurant 'West' seem to fulfil the customers' expectations in this respect.

The service employee factor is more important to customers in restaurant 'West' than to customers in the other two restaurants but the actual value of the service experience is similar in the three restaurants with most delighted customers in restaurant 'East'.

Table 6. Customer assessments of six components of an actual as well as an ideal restaurant experience in the three case-study restaurants.

	South (%)		East (%)		West (%)	
Restaurant	Actual	Ideal	Actual	Ideal	Actual	Ideal
Basic food	37	27	28	20	40	31
Culinary finesse	4	14	20	16	18	17
Atmosphere	10	35	9	17	13	13
Service	13	1	16	14	10	17
Other guests	24	15	13	19	8	13
Company at the table	12	9	13	14	11	7
Total	100	100	100	100	100	100

The consumer factors 'other guests' and 'company at your table' seem to be much more important for an ideal restaurant experience to customers in restaurant 'East' than to customers in restaurant 'West'. The actual experience of the component 'other guests' is also valuable for the customers in restaurant 'South' and this component outperforms both the values of the service, the culinary finesse, and the restaurant atmosphere. Clearly, 'South' stands out as a social place at which to hang around. Customers in restaurant 'West' seem to be disappointed by 'other guests'. 'The table company' seems, however, to be a positive surprise to the customers in restaurant 'West' and 'South' and met the expectations in restaurant 'East'.

Analysis

Customers' evaluation of the total restaurant experience includes 'customer factors', i.e. 'other customers' and 'company at the table', which together account for 26% of the ideal average restaurant experience and 27% of the actual experience. It may, however, be argued that customer factors are out of control for the restaurant manager or at least not reflected in the accounts. In the comparison between customers' assessment of the value of a restaurant experience against the accounting cost of producing these experiences, the value and the cost of experiences related to 'other customers' and 'company at the table' will therefore be excluded.

The percentage distribution of the total experience value to the now four value components (basic food, culinary finesse, service, and atmosphere) will be different from the percentage distribution in Tables 5 and 6 since two of the components are no longer included. The new percentage distribution is illustrated in Table 7 together with a percentage distribution of total cost to the four experience accounts to allow an analysis of how accounting costs of utilised resources correspond to the experience value created based on mean values of the three restaurants and all customers.

Although the ideal value of 'culinary finesse' is higher than the actual value, the actual experience value (19%) is much less than the cost proportion (30%). This may be an indication of poor efficiency in culinary activities and much of the resources that ideally should be spent on culinary finesse seem to have spilled over to basic food. Customers' expectations of an interesting interior and atmosphere stand out again as the area where restaurants have a potential to spend more resources to create higher customer value.

The results in Table 8 illustrate values for each individual restaurant. As a restaurant needs to adapt the concept in line with the expected clientele, it will be important to produce an experience that is in line with the guests' ideal restaurant experience.

Table 7. A comparison between accounting cost in the average restaurant and the customer value created in terms of percentages.

Average restaurant	Accounting cost (%)	WTP (%)	
		Actual	Ideal
Basic food	39	48	34
Culinary finesse	30	19	21
Atmosphere	6	14	30
Service	25	18	14
Total	100	100	100

Table 8. A comparison between accounting cost and customer value in the three restaurants.

Restaurant	South (%)			East (%)			West (%)			Average (%)		
	Cost	Actual	Ideal	Cost	Actual	Ideal	Cost	Actual	Ideal	Cost	Actual	Ideal
Basic food	41	58	35	37	38	29	41	49	40	39	48	34
Culinary finesse	46	6	18	29	28	19	28	22	22	30	19	21
Atmosphere	4	16	46	2	12	26	7	16	17	6	14	30
Service	9	20	18	32	22	21	24	13	22	25	18	14
Total	100	100	100	100	100	100	100	100	100	100	100	100

Both 'South' and 'East' are rated far below the ideal in atmosphere and the clients seem to be willing to pay more for the atmosphere part of the experience. Customers on average give the atmosphere 30% of the total value of an ideal restaurant experience, whereas the two restaurants only spend 2–4% of their total cost on the atmosphere and physical environment. 'West' is the most elegant restaurant of the three and 7% of the cost is actually spent on the atmosphere, which is also highly valued (16%) by the customers' actual experience when dining in 'West' almost in line with an ideal restaurant experience.

'West' is spending 24% on service, which corresponds well to the guests' ideal proportion (22%) but not so well to the actual service experience of the customers in restaurant 'West' (13%), a fact that may indicate a low service efficiency. 'East' on the other hand has created an actual service experience that the guests are willing to pay (22%) considerably more for than in the other two restaurants. The restaurant is also spending 32% of the cost on service according to the experience-based costing method.

'South' is valued highly on the basic food and so are the other outlets. This could indicate a high proportion of lunches or business lunch trade were the culinary aspect seems to be of a lesser importance. 'South' seems to be focusing on the basic food experience rather than creating culinary finesse, something for which the guests seem willing to pay. 'East' is successful in the culinary aspect without spending more than the other restaurants on this. This could be the result of efficient utilisation of resources. 'South' is the opposite of this and spends a lot of resources (46%) on culinary finesse and achieving only a 6% actual experience, which is an indication of high inefficiency in the culinary aspect but on the other hand customers at 'South' highly appreciate the basic food component.

An important factor is also the high scores for basic food in 'South' and 'West'. If the aim of the restaurant is to increase the trade, apart from lunches, this is an indication to put more effort into the culinary aspect of the restaurant in order not only to increase trade but also to raise the profile of the restaurant and consequently be able to charge more for the experience.

Conclusions

One major objective with budgeting and management accounting is to focus on how costs are allocated to various activities in a firm. Experience accounting sets a focus on how resources are used to create customer value. There is a large variation among hospitality firms as to the amount of time and interest devoted to budgeting and cost analysis and for many restaurant managers accounting in its simple form is already too burdensome and or too tedious for the manager to spend time on. Taking accounting one step further, as you would do with experience accounting, may not be met with any enthusiasm by many restaurant managers. On the other hand, the more relevant information that experience accounting provides in terms of a match between value created and cost of producing the value may make it worthwhile to spend more time albeit on a slightly more complicated bookkeeping.

By analysing the costs of creating an experience and comparing it with the guests' WTP for a particular part of the whole restaurant experience, managers and owners could reallocate resources from one area to another. But it will all come at a cost. There will always be a trade-off as putting resources into one area will affect another area and a method like this helps to find a better balance, a more suitable mix. The issue of getting the balance just right is also meant to avoid 'overkill' in any area and to make sure that all experiences on offer are the experiences for which the guests are willing to pay.

Customer surveys based on the contingent valuation method yield results in terms of monetary estimates that have not only statistical properties that allow advanced analysis but also a value measure that is directly compatible with cost estimates.

The results of the customer survey carried out in this study support recent studies regarding the importance of service personnel as well as the restaurant atmosphere and the physical environment (Ryu & Jang, 2008a, 2008b) as well as the quality and quantity of food (Keng et al., 2007). The customer survey also highlighted the importance of the consumer factors 'company at the table' and 'other guests in the restaurant' as has been pointed out also by Brocato and Kleiser (2005).

The service encounter model (Baker, 1987; Bitner, 1992) suggests three factors and the results of the customer survey carried out in this study gives a dominating role to tangible factors (i.e. food, culinary experience, and atmosphere) in a restaurant context. The tangible factors represent 63% of the ideal experience and 59% of customers' actual experiences in the three case-study restaurants. The service employee factor accounts for 10% of the ideal experience and 13% of customers' actual experiences. The consumer factors 'company at the table' and 'other guests in the restaurant' finally account for 26% of the ideal experience and 27% of customers' actual experiences in the three case-study restaurants. Experience accounting may serve as a foundation for a better utilisation of resources in order to focus on issues were the restaurant is weak and allocate the efforts to creating experiences that the guests value and consequently, for which thus are willing to pay more.

Even though it is often argued that the two factors 'other guests' and 'company at the table' are beyond the control of the restaurant operator, there are industry-specific methods of 'creating' the clientele. Pricing could be one way of setting the standards for a restaurant, simply by setting the prices at a level where a certain clientele would feel discouraged to enter the establishment or indeed the reverse. The knowledgeable restaurant manager/operator can also allocate tables to guests in a way that is affecting the guests' experience. By putting the 'ideal' customer at the window tables, the restaurant can try to create a specific image. It is also quite common to put business-related guests on one side and guests with children on another to avoid conflicting noise levels for the guests. Other more or less discriminating measures could also be used to try to attract the type of clientele that the restaurant perceives as the target clientele that would enhance the experience for the other guests.

Further research

The rationale for management accounting is to provide reliable and relevant information for management decisions. This study is mainly based on ideas generated from academic research on accounting, customer value, and satisfaction but an assessment of reliability and relevance must be made by practitioners. 'The proof of the pudding is in the eating' and restaurant managers should, as a next step in the process, give their opinion on the usefulness and relevance of the ideas put forward in this study.

This study is based on a reallocation of costs *ex post* from a traditional accounting scheme (USAR) to four experience accounts. Should a restaurant manager find these ideas worthy of a full-scale experiment, this experiment should start with experience bookkeeping, i.e. allocating costs to value-creating activities already as a part of the daily bookkeeping task. Experience bookkeeping should then be matched both against a survey of customer value and against an experience budgeting process.

For an industry that for a long time has used standardised and rather unsophisticated methods of calculating the price of the food and drinks served, experience-based

accounting could serve as a tool for a more accurate pricing strategy (Andersson, 2006) and consequently a better utilisation of resources at hand. Rather than using a uniform mark-up figure, the experience created could serve as a base for a different method of pricing that is more aligned with the cost and the value of the various components of the restaurant experience for which guests actually are prepared to pay.

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From cost accounting to customer accounting in the restaurant industry

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Abstract: The aim of this paper is to discuss the testing, diffusion and application of newly developed experience accounting (EA) system to academics and practicians in the hospitality industry. As the EA system is based on the production of experiences, it will be important to test and diffuse the idea to practitioners in order to evaluate the actual practicality of the method, via this constructive approach. A well-aligned system would provide the industry with a tool for better managerial accounting and should facilitate better resource allocation, cost control and consequently increase the efficiency in the restaurant industry. The research indicated a need for such a tool and the EA system was applicable and useable in a live environment. It was also apparent that the method used and the results would give a very useful snapshot of the business performance at any given time, hence a valuable *ad hoc* contribution of the research.

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1 Introduction and overview

Would a dedicated management accounting system for the restaurant industry improve productivity in this business sector and is there a need for such a system?

As many of the accounting systems today are based on the production of a product and not the production of the entire experience surrounding the restaurant visit, and both

the academia and the practical world seem to be waiting for development in this area; the answer to this question should probably be yes. This research aims to look at the practical need for such a new development, and an attempt to evaluate if this is the right thing by running it through the actual end users of such an innovation – the practicians. The final objective is to lay the foundations for a new managerial accounting system, specifically developed for the restaurant industry, in order to create a better tool for cost allocation, resource allocation, cost control and pricing – important areas where the literature indicates a lack of suitable methods or systems.

Few would argue that the restaurant industry is producing just a plate of food, consumed to fulfil the basic need of hunger. Today, it is often a matter of producing experiences, i.e. the whole concept relating to the dining experience, and hence the restaurants would be included in the experience economy (Andersson and Carlbäck, 2009; Pine and Gilmore, 1999). Restaurants produce whole concepts and experiences and only a certain part of what the guests would pay for is actually the food on the plate. Recent research has divided the meal experience into five aspect meal model (FAMM) based on the *room* (the actual local), the *meeting* (meeting other guests and staff), the *product* (food and drinks), the *atmosphere* (the environment and sentiment) and the *management control systems* (pricing and efficiency, etc.) (Carlbäck, 2008; Gustavsson et al., 2006).

By neglecting or simplifying the issue of what is actually produced, the industry will face several dilemmas. Not only the fact that both the pricing structure, control systems, performance measurement and budgets could be out of tune with reality, but also more practical issues, such as not meeting the needs of the guests in today's competitive market (Andersson and Mossberg, 2004; Barsky and Nash, 2003). If the restaurants ignore what the guests want and are willing to pay for, it could lead to profitability problems in the long run. There has been studies conducted which clearly points out that the restaurant's physical environment (Ryu and Jang, 2008), food quality (Sulek and Hensley, 2004) and service personnel (Andaleeb and Conway, 2006) are the high priorities for the modern restaurant guest. Consequently, the industry as a whole and the individual restaurant should follow this lead and ensure that the accounting system is geared up to adapt the business to what the paying guests are asking for. A system tuned in to the demand should lead to better profitability and better allocation of resources. Current research has shown that the first four aspects in the FAMM model are being researched, but the management accounting part is attracting less interest and consequently development (Jönsson and Knutsson, 2009). This paper will focus on the last aspect (management control system) and therefore, contribute to the whole concept of FAMM and enhance the development of management accounting systems or techniques in the restaurant business.

On the other hand, producing what the guests want would not alone create a profitable and successful business. With lack of proper control and indeed tools to allocate resources and prices that give enough income to cover the costs and produce a fair profit, no restaurant would survive in the market for long. Proper resource utilisation is important in order to minimise waste, as this will always have an effect on the profit (McNair, 2003). The issue here is that while the restaurants are producing experiences, the accounting system is tuned in on the creation of a plate of food. This could also be related to the research about value creation model (VCM) (McNair, 2003; McNair et al., 2001) where the importance of the guest's willingness to pay is described as paramount to the business' success and consequently is a part of this model. The application of the

VCM model has mainly been focused on the non-service industry, but lately some attempts have been conducted to use it in a more service oriented context (Jönsson and Eriksson, 2006). The research clearly indicated the usefulness of the VCM in the service sector.

The experience accounting (EA) system was developed (Andersson and Carlbäck, 2009) based on the need for a new system to control over-head (OH) costs in the restaurant business and to be able to allocate resources more efficiently, manage the resources better and price the products more inline with the actual cost of producing them. The EA system presents a way of allocating the OH costs, normally a substantial part of any restaurant operation. The EA method is rooted in the notion of production of experiences rather than a product (Andersson, 2006). If the restaurant visit is viewed as an experience and not just as an occasion to be fed and relieve hunger, the guest's satisfaction and the guest's perceived value must be taken into account. But a system must be fully tested, refined, adapted and ultimately implemented amongst the actual users of the systems, i.e. the beneficiaries – in this case the restaurant industry. Management accounting systems and indeed managerial accounting research has a purpose because there are real companies using it and benefiting from it (Mitchell, 2002).

This paper will take the constructive approach to discuss the issues and results of the attempts to explain and diffuse the EA system and suggest new routes for both future research and more practical implementations of the system to the restaurant industry. As the literature below indicates, there is a need for new managerial accounting systems, especially based on resource allocation. Previous research also states that more focus will have to be put on the customer side and on the actual user of such a new system. As this study is a combination of these factors, it aims to bring valuable contribution in terms of new ways to deal with resource allocation, cost control, analysis of waste areas and finally novel ways of calculating the price structure, based on what the customer wants and are willing to pay for. By testing the relevance and the validity with the end-users, the aim is to gain important information in order to be able to modify the system before the more practically oriented testing and diffusing process.

A better aligned managerial accounting system, where the customer's willingness to pay is included, should present a better foundation for managers and owners to base their decision-making on strategic decisions, investments, resources allocation, etc.

2 Theoretical framework

A lot of the managerial accounting literature deals with the issue that too little is done for too few users. One line of critique is that the management accounting academia is dealing to a very limited extent with a constructive approach to managerial accounting issues (Kasanen et al., 1993). They argue that almost all new systems have been developed in the companies by consultants while academia is merely bystanders, thereto analyse and criticise already developed and implemented systems.

New ideas, models or constructive approaches, that are results from research, need to be spread in both academia and amongst the practicians in order to develop both the theoretical perspective and practicality of the concept. In both cases, it would obviously be necessary to unbundle the actual innovation and analyse the components in the concept (Björnenak and Olson, 1999). Innovations that have been produced during the last decades are often packed or wrapped as acronyms, such as activity based costing

(ABC), AM, LS, BS, etc. (Björnenak and Olson, 1999). To be able to diffuse and test the innovation, it needs to be analysed in its parts and consequently scrutinised in the aspects of its applicability. If the innovation is perceived as interesting and scientifically acceptable, the debate and valuable improvements and suggestions will be published in coming papers. But as the accounting systems are validated by the applicability in the real world, among real companies, the diffusion process will have to continue. Several managerial accounting papers stress that there is a gap between research and practice (Kasanen et al., 1993; Mitchell, 2002). They argue that the results of management accounting research had very little impact on practice. The topics on the agenda for research and for practical use are different (Mitchell, 2002). Therefore, the issue should be to focus on the diffusion to the practical side of the industry. Not only to get it implemented and used, but also to test it in its right environment and gather information for improvements and possible modifications. It has been argued that the theories developed in managerial accounting research are not being tested sufficiently in practice (Kaplan, 2006). The testing part will be described later on in this paper.

Surveys have shown that few practitioners have access to, or have read the articles written for them, on subjects relating to their businesses (Mitchell, 2002). Time constraint and a more practical approach to the problems could be reasons why the information does not reach its target audience. With respect to the practicality dominated restaurant business it is not very likely that this figure would be better, even though no surveys aiming for owners, managers and executives in the industry have been published. Michell (2002) also pinpoints another important issue regarding why the information is not getting out. The management accounting research has been focused on research of management accounting, rather than theories for management accounting, i.e. what is the solution to the problem (Mitchell, 2002). Basically, the research does not focus on what the practitioners want, but rather what the academia wants. But this paper is focusing on an innovation and to test, evaluate and diffuse this theory to the practitioners, and from that draw conclusion to refine the theory and possibly amend and improve the theory to make it better suited for the end-users. Ax and Björnenak (2004) argue that new concepts or innovations have acquired trademarks which are used to sell them to groups of practitioners. It is also, in the same context, important that the academia is abandoning the emphasis on studying the demand for management accounting and instead starts to focus on the supply of these theories (Ax and Björnenak, 2004).

Based on the above mentioned aspects, the research on EA, described in detail further down, is well in line with the theory surrounding this research field, as this constructive approach is focused on the user and the customer. The work done so far has been empirical based on case studies, or rather multiple case studies in order to establish some kind of framework for the theory (Andersson, 2006; Andersson and Carlbäck, 2009). In this theory development phase, case studies are considered a valid method and it could also be used in the theory refinement phase, even though this is a much less researched area (Keating, 1995). Hence, the academic continuation of the diffusion could be via multiple case studies to evaluate and refine the results and eventually a single case study where the system is put to work in order to gain more knowledge of how the system would work in reality. But, at the same time, the system should be tested amongst the practitioners (Ax and Björnenak, 2004; Björnenak and Olson, 1999; Kasanen et al., 1993; Mitchell, 2002). As the research primarily is developed for the industry players and for use in their businesses, it is of no use to leave the results in the closed circle of academia. The approach should instead be to communicate, initially with the establishments that

took part in the survey and monitor their reactions and perception of its applicability. The feedback and indeed comments would make valuable foundations for further refinement of the method or system.

A second alternative, naturally to follow the presentation for the participants, could be a seminar with leading practicians, in order not only to get valuable suggestions, but also to ensure that the message is being spread in the business sector (Kaplan, 2006; Kasanen et al., 1993; Mitchell, 2002). By combining this constructive approach, which is considered scientific (Kasanen et al., 1993) with a more practical way of getting the innovation unbundled and criticised by the real users, the restaurateurs will be part of the development (Ax and Björnenak, 2004). After this testing and refinement phase, the theory should be ready for the ultimate test – to be used in real terms in a restaurant that would be willing to be part of this innovation. By that time, the theory should have spread in academia and hopefully also to a certain extent to the practitioners. A critical issue here would also be to ensure that the information is filtered down through the ranks (Kaplan, 2006), not just staying with top management in large restaurant chains, as the information would have to reach the people who work with this on a daily basis, the F&B controllers, restaurant managers, head chefs and owners.

According to the literature, there is a general need for research in the field of managerial accounting and in the hospitality industry as this need seems even more necessary. In restaurant accounting, the system widely used is the uniform system of accounts for restaurants (USAR) which is a well-established framework and also the system mostly used internationally (Andersson and Carlbäck, 2009). The drawback with the system is its inability to analyse cost and how to deal with the OH costs (Potter and Schmidgall, 1999). As the hospitality industry is dominated by fixed costs, an accounting system to properly analyse them is lacking (Heikkilä and Saranpää, 2006). The use of USAR will only produce key figures, such as cost of sale, payroll, gross profit and net operating income that could be used for comparisons to budget, benchmarks or other businesses. The extent to which the business owner or manager could use the figures to improve the performance of the business is limited.

In other industries, such as manufacturing, it has been argued that traditional methods are obsolete (Johnson and Kaplan, 1987). The result of this was the development of ABC, balanced score card (BSC) and later activity based management (Cooper and Kaplan, 1991). Even though BSC has been criticised and debated (Nörreklit, 2000, 2003), it has been implemented and used in the healthcare sector (Chan, 1993), the airline industry (Tsai and Kuo, 2004), etc. The restaurant industry has been slow to adopt any new systems, while for example the hotel industry has implemented certain new metrics, such as (gross operating profit per available room, revenue generation index and revenue opportunity model (Cross et al., 2009). Revenue per available seat hour has been introduced in the restaurant industry, but requires costly and time consuming data collection (Kimes et al., 1999).

Related to the restaurant industry, this could be extended to say that new systems are neither developed in companies or by consultants, nor by the academia. Hence, the academia does not even have much to analyse and criticise. In a recent article describing and analysing the research conducted in managerial accounting in the hospitality field, it was concluded that one of the largest industries in the world was very little researched in this context (Dittman et al., 2009). The authors suggested several topics for future research that would benefit the hospitality industry, both theoretically and in a practical way.

As a lot of the writing on the subject management accounting is stressing the need for more research on cost, value, revenue and profitability (Banker and Johnston Hansson, 2007), and especially so in the hospitality industry (Banker et al., 2005), the EA research fits in this category. This is also the conclusion in a very recent paper focusing on the management accounting research with this field (Dittman et al., 2009). The suggested research topics are all more or less touched by the EA research, where a lot of interest is put on the issue of fixed and variable cost. This issue has been raised on several occasions and is one of the cornerstones in ABC, e.g. where the question of variable costs gets much attention (Kaplan, 2006; Zimmerman, 1978). Kaplan (2006) argues that costs become variable through information and management actions. In the same paper, Kaplan (2006) is also touching on another important part of EA (Kaplan, 2006):

> A demand curve that represents customers' actual purchase decision must include many more variables than just price.

The focus in general is turning to more customer-based accounting and pricing (McNair et al., 2001). To change from cost accounting to customer accounting is in line with this research, and to take the customers perspective into the calculation could lead to new possibilities. The idea with this research was to take the issue further by using a constructive approach, i.e. to develop a new method or system to solve the problem.

By including the guests' view of the value, price, experience and satisfaction, the owner or manager will be able to see the operation from the other side – the side of the paying guest. If the business owner/manager knows what the guest wants, and even better, what the guest is willing to pay for this (market price), after that he or she can align the business.

Previously, customer accounting has been more a way of including the customer in the performance measurement as a non-financial measurement (Lind and Strömsten, 2006). Customer accounting has, to an increasing degree, been developed around the customer as a part of the whole process and several studies have been conducted in the field. But the emphasis has been put on the segmentation of customers and the profitability evaluation of customer segments and individual customers and even the profitability of a customer over its lifetime (Cooper and Kaplan, 1991; Guilding and McManus, 2002).

Understanding of the relationship between the costs of the firm and the value the firm provides to its customers is the key to the ability of the firm to reach its profit potential (McNair et al., 2001).

The marketing literature is dealing more with this issue than the managerial accounting literature and the importance of customer-based metrics, such as customer satisfaction, customer loyalty, and the drivers behind these valuables have been discussed (Helgesen, 2007). On the other hand, we have the business metrics, such as customer revenue, customer cost and customer profitability (Grønroos, 1990; Helgesen, 2007), but the issue here is to combine the two in a method than will use both sets of metrics to create a managerial accounting system aimed at helping the business manager to get the performance as efficient as possible.

The importance of incorporating the guest satisfaction and perception of value has been developed in recent research (McNair et al., 2001). It is becoming more and more crucial to incorporate the customer satisfaction in the business strategies and new systems would benefit from including this (Pizam and Ellis, 1999). Guest satisfaction and the firm's performance has been proven to be linked together (Gupta et al., 2007) and by

using the resources to produce the best possible guest value or satisfaction, the operation will be more efficient (Ryu and Jang, 2008).

## 2.1 Experience accounting – the system

The idea behind the EA is to develop an accounting system well aligned with the production of experience based on the discussion above. The foundation is an accounting system where total the OH costs are allocated to the production of four major types of experiences. The EA system is based on two parts, where the first part is a cost analysis of the restaurant based on the production of experiences, namely the basic food account, the culinary finesse account, the service account and, finally, the atmosphere and physical environment account. This will be followed by an analysis of the customer value, based on the three major factors of the restaurant: tangible factors, service employee factors and consumer factors (Figure 1). Therefore, the final part will be to compare the accounting costs of producing each of the four components of the restaurant experience to the four values that customers attach to the same four experience components. This is then compared to a survey of customer evaluations of a meal experience categorised into the same four components. By using the contingent valuation method (CVM)-method for measuring the value of the customer experience, which produces the results in monetary terms, the results can be compared to the cost of producing them (Mitchell and Carson, 1989). The results of the guest survey will show the customers perceived value of the experience. By comparing these results with the newly created experience accounts, a completely new picture will emerge. Are the restaurants (in this case) utilising their resources to produce what the customers are willing to pay for, and if they are – are they achieving the results they are expecting, i.e. are the costs used effectively?

With an allocation based on the experiences created rather than an allocation based on a fixed percentage of the OH costs, restaurant owners and manager should be able to use the resources at hand more efficiently. The restaurant industry is to a larger extent aware of the fact that the restaurant experience is a complex issue, made up of several factors. But, when it comes to operational management and investment decisions, managers get little information and support from the accounting system in their efforts to create memorable restaurant experiences for their customers.

Firstly, it will be possible to reallocate costs from a standard system of accounts to an experience-based system of accounts that shows the costs associated with the production of various components of a restaurant experience. Secondly, it will also be possible to analyse the value that customers attach to a restaurant experience and to various components of such an experience. Finally, it will create an opportunity to assess whether an experience-based system of accounts yields relevant information for management accounting and management control. An EA system should therefore, when fully developed, give the managers or owners in the restaurant industry an alternative management accounting system which offers the possibility to produce more relevant information as a foundation for budgeting, cost allocation, resources utilisation, cost control and pricing.

The following model was used as a base for the development of the system:

Figure 1   Analytical framework for assessing the efficiency of experience production by a comparison of customer value vs. accounting cost
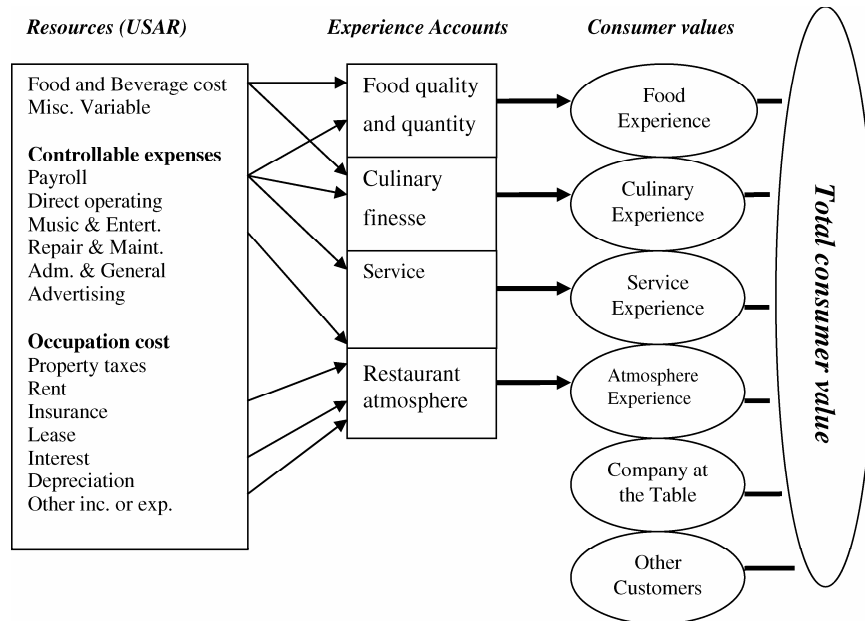
Source: Andersson and Carlbäck (2009).

3   Method

The aim of this study is to test and analyse the EA system to the possible users of such a system. As the actual developing research is very current, this part of the research will fall under the refinement phase. The first step of this constructive approach was to interview representatives for the three restaurants that allowed the researchers to survey their guests and to rework their bookkeeping. It would have improved the results if more owners/managers could have been interviewed in this phase, but as the presentations were based on the results of the analysis customer surveys, this was not possible due to the sensitivity of the outcome. The owners (restaurants 'South' and 'West') and the manager (East) were given a brief, and practically oriented presentation of the findings, both as an average for the whole research project and also more specifically for their particular establishment. The owner/manager was then interviewed in a semi-structured way as to the ideas, suggestions, applicability and possible problems with the EA system; the interviews were taped and later transcribed. All the three establishments had the presentation/interview that lasted around 2 hour. The second part was a special seminar conducted by the Swedish Hotel and Restaurant Owner's Association (SHR) and Centre for Tourism at the University of Gothenburg, School of Business, Economics and Law (CFT) and around 45 restaurant managers/owners were present. The EA system was the only topic on the agenda. The seminar attracted all the major restaurant companies in Stockholm. The seminar was performed as a 45-min presentation of the research, in a

practically oriented way and followed by 30 min of open discussion. Following restaurants participated in the survey:

Restaurant 'South' is a fairly small restaurant with a French touch, centrally located in a midsized town. The focus is mainly on business lunches and formal dinners and there is no bar area. During the cold months the restaurant seats around 40 guests and in the summer a small outdoor serving area is added.

Restaurant 'East' is located in a midsized town and belongs to a major hotel affiliation. The restaurant is inspired by the proximity to the sea and seafood is a special feature. Apart from a cosy bar area, restaurant 'East' has seating space for around 80 guests and a very attractive outdoor service area for the warm months. The restaurant is very popular with local guests as well as the guests staying in the hotel.

Restaurant 'West' is located in one of the best locations in the centre of a major town. The restaurant is comparatively big and can seat more than 100 guests in the dining room and also has several private rooms as well as a large bar area. During the warmer months, a large outdoor serving area is added. Restaurant 'West' attracts not only business guests and formal diners, but also many tourists, due to the location. The kitchen can best be described as international with a Scandinavian touch. The listed building, of which the restaurant occupies a big part, is a unique feature.

4   Results

The owners/managers of the three participating restaurants all conveyed a rather sceptical attitude to the presentations initially, stating lack of time and internal problems as hurdles and obstacles. The promise of a short, concise presentation, where the results were adapted to practical use and relevance made it possible for the meetings/presentations to be set up. Even if the reluctance was present, all the three representatives for the outlets stated a positive attitude to the fact that research was being done for the hospitality industry. None were aware of any research being done in this field, which could both be a lack of interest but also a proof of bad diffusion of any research being conducted in this fast moving business. As a large part of the research is done in the USA or in the UK, the language barrier could be a factor worth considering for future diffusion efforts. Research and the results would obviously be easier to understand, interpret and implement if the material is written in the native language of the audience and possibly also in a rather more practical way. The target audience would then be more prone to read and would get more confidence in trying the suggestions out.

> "It is very interesting that research is being done in this sector. I am not really aware of any research being done, on a more practical level. It seems to be head offices, or consultants who come up with new things, like revenue management," said manager for restaurant East, who has long experience from the business, in various capacities.

> "This is very exciting, indeed. We are using the same methods as we have done for years, and surely there must be new ways of doing things, like improvements in many other business," said the owner of restaurant West, a large busy place, attracting both business people and tourists. "It really is about time that we get more refined methods, so we can take the business to new levels," he continued.

The third participant, South, was not that enthusiastic about the idea. South, which is a rather small outlet, run by the owner and a few members of staff, looked at inventions and changes with the stressed managers eyes – 'it might be good, but I do not have time to learn it, less implement it and benefit from it'.

This restaurant must also be considered the most hands-on managed restaurant, where the control and budgeting were being limited to one person – the owner himself.

> "I am here all the time when we are open, and I have control and I set the prices as I have done before ,– a straight mark up based on a percentage that I have in my head," he said. "I do not really need more than that, the place is too small to use sophisticated systems or methods," he continued.

The results of the survey also indicated that South was further away than the other restaurants when it comes to use the resources in accordance with what the guest would like to pay for.

During the actual presentation, all the three representatives were most interested in the actual results of the survey measuring the guest willingness to pay (WTP) in respect to their own outlet.

> "Interesting, – this shows us that we should focus more on the culinary finesse, rather that the basic cooking," said owner of restaurant West. "Our guests would be willing to pay more for finer cuisine and we do not score very well on the basic food side," he continued.

> "We seem to be doing very well on the service and the atmosphere, but we have discrepancies when it comes to the food, both basic and culinary finesse," stated owner of restaurant East. "It is interesting as we used to be famous for our food, but we recently changed concept (as new owners came in) and it now appears that we have to work on that side. We have to re-allocate the resources in the direction of the kitchen. Very valuable information, indeed."

The owner of restaurant South could also see valuable information from the results of the survey;

> "We have a very high food cost and we do not seem to get that much from it, in terms of what the customer value as important and hence are willing to pay for."

All the three outlets could quite easily and find relevance in this type of results and viewed this as a benefit in its own right, but on a more restaurant-to-restaurant level. Owner of restaurant West summarises this:

> "We can use this information to see where we are failing and do a similar survey after possible changes and then we can see if we got it right. We can, in our case, also try to re-allocate the resources in the kitchen and put more emphasis on the culinary finesse, do another survey and see if we are getting it right."

So, the first and fundamental part of the method was received well by the participants and several questions were raised in respect of how one should interpret the data and ways of using it to improve the performance, or in this case the allocation of the resources.

> "It has certainly given me something to think about, in terms of resource allocation and to view the restaurant visit as an experience is obviously very accurate as it is just what we are trying to create – not just a place to eat and

drink," said the manager for restaurant East. She continued; "This could be applied in a similar way as yield management or revenue management on the accommodation side, which I have worked with before. Funnily enough, it seems to be very little done on the revenue management side for restaurants and bars."

Owner of restaurant West had a similar opinion:

"If I have understood it right experience accounting system could be a very valuable tool. To see the guests visit as an experience rather than just a feeding exercise puts the whole concept in a new perspective. It would obviously make more sense to look at what the guests want and ultimately are willing to pay for."

The owner of restaurant South, the smallest one in the survey, was not sure whether this would be applicable to his establishment, based on the statement he made before;

"I am working many hours as it is and I meet every single customer, so I think I have a pretty clear picture in my head of what the guests want and are willing to pay for. I would not think I will have time to do this."

Time was a concern.

"I think the idea is good and relevant, but I am worried about the bookkeeping side of it, would it not take a lot of time and effort to use this alternative way of accounting?" asked owner of West.

The manageress of East was not personally involved in the accounting, but was also concerned that this would take valuable and expensive time. But after a deeper description and explanation of the fact that it would, after the initially set-up, not be anymore time consuming than the method used today.

"Okay, then I cannot see any problems with using this system, only benefits as it would give us a better chance to develop the actual experience for the guests and at the same time use our resources better," she said after the explanation of how the system works.

The owner of West looked at it from a different angle;

"This could revolutionize the pricing in the industry, no doubt. By using this method, experience accounting, we could use different methods, based on this, to set the prices for every dish and indeed every bottle of wine."

Table 1   Current issues and attitudes in the three cases based on traditional accounting systems

Restaurant	*West*	*East*	*South*
Cost allocation	A	A	A
Budgeting	A	N	A
Align production/output	N	N	N
Pricing	N	N	N
Cost control	N	N	A

He continued;

> "This could lead to the fact that the guests could choose what they really want instead of just the cheaper dishes and the same for wine. That would be very, very valuable and could certainly change the way we are doing business at present."

Table 1 is an overview over the issues and factors considered to be not acceptable (N) or acceptable (A) with the current situation, based on the traditional accounting system.

From Table 1, it becomes clearly evident that the prevailing system lacks certain possibilities that anyone in a managerial position could use in order to better manage the restaurant, at least seen from a financial perspective.

EA would imply certain changes and adaptations. This would be the responsibility of the management or owners, a group that in the restaurant business often work long hours and consequently are reluctant to too dramatic changes. This summarises the impressions from the three cases when presented with the results from the use of EA and the implications that could follow. The mangers/owners indicated useful (U) or not useful (N) which could indicate that a new system would be too time consuming or it was not necessary for that particular restaurant as the current system is sufficient.

Restaurant South is, according to the comments/answers, most reluctant to any new system. The same restaurant is also the smallest and where the management is most 'hands-on'. Hence, the information – the very same information used in management accounting – is stored in the managers own way, in this case his head, i.e. very limited paperwork.

Any deviation from this would impose more administrative work and a break away from the traditional ways of doing things like pricing and cost allocation. It is worth mentioning again, that restaurant South deviated most in the case of resources used compared to the results from the customer survey.

4.1   The seminar

At the seminar held in Stockholm, arranged by SHR and CFT, the presentation was held at a slightly more general level and as the participants had been invited, the initial interest was more curious and less sceptical.

Still, after the presentation, voices were raised, regarding the importance of the research.

> "It is very good that research is being conducted in our industry and the subject is interesting, but I think there are issues that needs to be solved before we go down to issues like this, which is more like an efficiency enhancing method," said one representative of a restaurant company operating several independent restaurants in the greater Stockholm area.

He continued:

> "I think issues like the contracts with the brewers and the interest on these so called loans needs to be addressed first. When we have fundamentals like that right, then I think it would be very valuable to continue in the way you are doing and try to make the industry more efficient."

One representative for one of the major Swedish hotel brands stated that:

> "This is very interesting. First of all that research is being done in this field and secondly that we are trying to find new ways of dealing with issues like

> OH-costs, which we all know is a big part of any firm in this industry. I clearly think this is worth following up, as long as we always keep an eye on the margins, as we can never jeopardizing the margins in this industry."

The main focal point was the fact that research was being conducted and this is in the field of hospitality. Several other participants expressed gratitude and interest in the fact that something scientific was being done as to the efficiency and profitability of the hotel and restaurant business and something that could be applied even on the smaller players, not only the big organisations and the multinationals.

> "I think this is a step in the right direction and with some more refinement and some further testing in the field it could, no doubt, be a very useful tool for the industry," said one participant, who represented a consultancy company, specializing in revenue management and menu engineering for the restaurant business.
>
> "I would be very keen to see the development of this in the future," he continued. "I can certainly see the use for a lot of this in the years to come."

As stated earlier, some concern was raised about the possibilities to keep the margins and to ensure that the total revenue would be the same, even with the use of EA.

> "I have a problem as far as the total revenue goes. It seems to me that the total revenue will decrease with experience accounting and that can not really be the intention," said one participant representing a restaurant company with several outlets in Stockholm.

The issue was explained, but further empirical evidence, i.e. a full-scale test in a restaurant, would be necessary to prove that this is not the case.

5   Analysis and conclusions

The main aspect of this first, initial attempt to test, diffuse and gain feedback for the newly developed EA model, was the fact that almost every participant were unfamiliar to come across any kind of research in this field. This could be interpreted as a lack of suitable research being done in this field, or a diffusion problem of a certain magnitude. It could also be a mere lack of interest from the field players, mainly due to time constraints (as this was clearly expressed during the presentations mentioned above). In either way, this presents a problem as the research should be done for the practitioners and also be filtered down the ranks to the people using it. Hence the testing and diffusion process will have to be improved, not only to make sure the information is spread but also to create an interest among the practitioners to actually read and evaluate the research being done in this field.

As far as the testing process goes, this was only a first step and careful consideration must be taken to develop this further in order to make sure the system that needs to be tested and diffused actually is tested and diffused in a way that will reach every practitioner in the industry.

As far as the actual method goes, the results from the above-mentioned presentations and seminar indicate that there is both a need for and an interest in the method. The literature review clearly indicates a lack of development in this field and the results point in the same direction. There is a lack of industry-related accounting systems in respect of

cost allocation, pricing, managerial accounting and ways of dealing with the extremely difficult and important aspect of fixed costs in the hospitality industry.

The results above show that EA (pricing, budgeting and cost allocation) could be one possibility to tackle this issue and drive the development further. Almost every participant was positive to the idea, but also wanted it more developed and foremost, tested.

It is also worth mentioning that the results of the survey indicated that the system would be useful in several ways. One example was the results for restaurant South which indicated that the particular restaurant was further away than the other restaurants when it comes to use the resources in accordance with what the guest would like to pay for. This restaurant was furthest away from using or making any use of current managerial accounting system at all. This restaurant was run 'hands-on' and the results from the survey points out a fairly large discrepancy between what the restaurant produced and what the guest wanted and were willing to pay for. By using a system like EA, restaurant South should be able to use existing resources better in order to produce an experience better suited for the clientele. The results also indicated that the pricing structure could be changed and developed, without harming the margins. The turnover and indeed the stock rotation could be improved at the same time as the customers get a better experience.

Based on the comments/answers from the owners/managers presented in Tables 1 and 2, the EA could be useful. The current system, according to the managers, presented several restrictions and limitations. And, when the managers/owners were presented with the possibilities they could easily see the benefits and usefulness of an alternative accounting system. The reservation came from the smaller and more owner-run establishment South. But the issues of being time consuming and create more administration would have to be overcome by refining the system and test it thoroughly.

The objections with the research were to find out if there is a need for new and more sophisticated managerial tools in the hospitality industry and if EA could be a solution to this problem. The contribution is a clearly identified need for new developments and that EA is one way to tackle this issue. The research also pointed out that the actual testing and the use of a constructive approach are beneficial and that particularly in the practically biased restaurant industry, presentations and informal seminars is an acceptable way of not only getting the message across, but also to get valuable feedback in order to further develop the method/system. This study also indicated that EA would work and apart from giving the manager/owner a tool to allocate resources better it could also serve as performance measurement at any given moment in time as it would paint a clear picture of the outlets performance at the time of the study – and indicate important needs of improvements or strategically changes.

Table 2   Usefulness and possibility to implement in the three cases

Restaurant	West	East	South
Cost allocation	U	U	N
Budgeting	U	U	N
Align production/output	U	U	U
Pricing	U	U	N
Cost control	U	U	N

6 Further research

As the overall consensus was that it was worthwhile to develop further, two main issues became clear; it needs to be tested in a live environment, i.e. a restaurant that is working and the results need to be evaluated and interpreted. It would also be very important to establish just how much time this new method would consume for the stressed restaurant manager/owner. It was clearly the most obvious obstacle to the system and by field testing it and ensure the actual time devoted to the new system compare to the old one, should be established and presented in the next round of presentations.

Hence the next step should be to evaluate any modifications to the system based on the finding herein and to thereafter test the system fully in one or several restaurants. Hopefully, at the same time, the testing and diffusion process in academia would have advanced and valuable input from that side should have been implemented in the system.

That could open the way for a second round of testing and diffusion to the practitioners and by this time with more empirical evidence to present. Another possible outcome was the use of the CVM in this way to create a snapshot of the business performance at any given time. The results showed that this could be disconnected from the overall EA system and be used as a valuable tool in itself – as a stand-alone performance measurement, either by the restaurateur or by a consultant. This *ad hoc* benefit from the research created a lot of interest among the participants.

The results above clearly indicate that the interest is there; it is more a matter of train and instruct the practitioners how to use it, where to find and how to read it. These kinds of seminars/presentations would obviously be a starting point and it should be interesting to develop the process further, based on a more rigid and tested system and presented for more practitioners in possibly smaller groups to allow the feedback and questions to come more freely. It would also be important to test the system fully in order to be able to explain, and be able to prove, that the time consumption will not exceed that of normal systems, once it is implemented and up and running.

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