

CASE STUDY REPORT

CODE S/O 12341

KNOTS GROUP CAFÉ – COPING WITH MANAGEMENT PRACTICES

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2013

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ACKNOWLEDGEMENT

Firstly, we are grateful to Allah s.w.t for His blessing and mercy that we are able to pursue this case study. Our heartiest thanks are extended to the owner of the case company for his kindness and cooperation that this study can be conducted. A special thank is also dedicated to Prof Dr Wan Nordin Wan Hussin, Prof Dr Siti Nabihah Abdul Khalid and Prof Madya Dr Rosliza Mat Zin and Prof Madya Dr Chek Derashid for giving their valuable guides, constructive comments and suggestions during the process to conducting and writing the case study. We are also indebted to Institute of Management and Business Research (IMBre), Universiti Utara Malaysia for giving grant for this study. Finally, our deepest gratitude goes to IMBre's staffs for their assistance during the process.

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July, 2013

ABSTRAK

Kajian kes ini adalah berkaitan perniagaan restoran yang dibangunkan dan dikendalikan oleh seorang usahawan Bumiputra bernama Awie (bukan nama sebenar) yang tidak memiliki latihan formal dalam bidang pengurusan perniagaan mahupun perakaunan. Perniagaan tersebut telah dibangunkan berbekalkan sedikit pengalaman berniaga kecil-kecilan, minat yang mendalam serta pengalaman di dalam bidang masakan. Namun begitu, berkat kegigihan beliau, beliau telah berjaya mengembangkan perniagaannya sehingga memiliki empat (4) cawangan restoran di sekitar Kuala Lumpur dalam masa lebih kurang sepuluh tahun. Melihatkan peluang yang ada dalam perniagaan ini, di sinilah timbulnya kesedaran tentang keperluan untuk menilai kedudukan syarikat dalam industri restoran dan perniagaan makanan bagi mengukuhkan serta mengembangkan lagi perniagaannya. Melalui kes ini, diharapkan para pelajar dapat menilai kekuatan dan kelemahan syarikat berdasarkan apa yang dipelajari dari kelas Pengurusan Strategik dan Perakaunan Pengurusan agar dapat digunakan untuk membantu Awie.

ABSTRACT

This case is about a restaurant that has been developed by a Bumiputra businessman, Awie (not the real name) who does not have any formal training in management. He has developed his restaurants based on experience doing small business and passion for cooking. Despite of his weakness, he managed to build the business to have four (4) branches of the restaurant around Kuala Lumpur within ten years. Realizing the opportunities in the business, it has triggered the need to evaluate the company's position in the industry in order to sustain and expand the business. Through this case, it is hoped that students can evaluate the strength and weakness of the company using their knowledge gain from the Strategic Management and Management Accounting classes to help Awie.

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Introduction

In March 2011, Awie Mahmud, an ambitious restaurateur who owned Knots Group Café in Kuala Lumpur attended a business seminar for Bumiputra entrepreneurship. He hoped to generate new ideas to explore other avenues of food business growth. He had thought of his food business expansion for a long time but loss in his own thoughts. During the tea-break, as he was waiting for the next session to start, Awie reflected on the speaker's highlights on the importance of an effective business management system for business sustainability. So, Awie was not feeling good about his business management system. He realized that he was not trained and lacked the appropriate business management knowledge and skills in managing his multiple food outlets. He knew that his business management practices were gained only through experience managing Knots Group Café for more than ten years. The thought kept lingering in his mind that he decided to review his management practices immediately after the seminar instead of proceeding with his business expansion plan. He was certain that this would allow him to find out his strengths and weaknesses in restaurant management. He also believed that this would unveil his business opportunities and threats that he could capitalize for his business expansion strategy. The idea was to enable him improve his management skills and thereby develop effective business management system to sustain his food business in a long run.

KNOTS Background

Knots was an abbreviated word for 'nautical' or another word for maritime taken after the Malaysian Maritime Academy (ALAM) where Awie served at the academy for one year. It was established in 2001, which was prompted by Awie's passion for cooking and fine dining. He launched the first Knots Café in Lumut as a partnership private limited company that featured western cuisine. Then, more Knots were set up around Kuala Lumpur since 2004 onwards. Each Knots café and restaurant outlet was unique in nature offering different cuisine based on market demand of the specific location around Kuala Lumpur City such as western, *kopitiam*-aseana, *mamak*'s cuisine, and canteen food. Till March 2011, Knots had four food outlets, an administration office, and a store at six different strategic locations. He employed about seven cooks and forty people to support the restaurant functions and operations. Knots employees were manager, account manager, food outlet supervisor, inventory supervisor, cooks, and food service workers. All aspects of Knots was fully operated by Awie such as restaurant management practices which include menu development, food costing and pricing, and inventory management system.

The Beginning

Awie grew up watching his parents doing many small-scaled businesses such as selling banana fritters at the little *attap* kiosk in front of their house, selling textile on an installment basis to the *kampong* folks, and a small-scaled *kuih* catering services. He was indirectly trained to do business as early as five years old. As he was a fast learner, he started his first business selling *raya* cards when he was six. His smiley appearance and waving-hands gesture invited and welcomed customers to his kiosk. He still invited and welcomed customers to his restaurant the same way today.

Awie served the Malaysian Maritime Academy (ALAM) for one year after graduating before switching to his passion for cooking. Driven by his passion, he started as a chef on board that took him from one ship to another. As he had gathered cooking experience and confidence from ALAM, he then opted for a chef position in several 5-star hotel restaurants including The Palace of the Golden Horses. With all these experiences, in 2001, Awie launched his first Knots

Café in Lumut as a partnership private limited company. He ventured into this restaurant industry based on his cuisine and fine dining experience gathered from the food servicing and hospitality industry from many 5-star hotel restaurants. He operated Knots with his friend for three years before Awie left Lumut Knots Café to his friend and moved to Kuala Lumpur to launch KL Knots Café.

Though Awie was from the maritime background but his strong interest in food and hospitality industry had established Knots Café network around Kuala Lumpur within less than 10 years. Being an ambitious restaurateur, Awie had successfully established KL Knots Group Café by operating multiple food outlets around Kuala Lumpur. He currently owned a 24-hours mamak's cuisine restaurant in Wisma Central, a bistro in Kuala Lumpur City Centre (KLCC), a *kopitiam* premium aseana café in Dayabumi, a canteen in Parkson Ampang, and a small new internet servicing kiosk in Pertama Kompleks where he run all his food outlets. Recently he also started on catering services for weddings and corporate functions on a small scale basis from the same office. Awie was also planning to venture into a new business opportunity – the franchising business of the famous Johore cuisine; '*Mee Bandung Muar*'. His continuous big plans was to diversify his food businesses by establishing new business avenues despite having only forty Knots's crew members to serve all his outlets.

The Backbone of Awie's Way

There are five basic challenges in Awie's Ways which he regularly emphasized to his employees:

1. To provide and retain quality, tasty and affordable food to the people's satisfaction.
2. To grow profitably, generating funds to generate more KNOTS in future years.
3. To innovate food business into new business feature as determinedly as branding KNOTS.
4. To train and develop every KNOTS employee to his or her full potential.
5. To put on smiley facial expression and waving-hands gesture to welcome customers.

KNOTS Business Avenues

All Knots café and restaurant outlet were rented. However, he planned to have his own premise in future. Meanwhile, each of his restaurants was unique in nature with different cuisine based on market demand of the specific location. He carried out his own market surveys at all his current restaurant location. So each Knots Cafés were set up after getting positive results from a random market survey on the viability of operating the different types of restaurants. Except for Knots Café Wisma Central, all other restaurant outlets opened only during working days.

KNOTS Café Wisma Central (WC)

Awie got WC for his 24-hours restaurant by chance when the owner could not manage the shop due to a dearth in financial support. So he took over a bankrupt restaurant to open up Knots. People around believed that he could not make business in WC but he believed in himself that he could survive the business. He started WC from only one business lots to four lots today. Due to proximity to KLCC, WC was specially set-up for people who work there with cheap and affordable price as compared to restaurant in KLCC. He knew that many Malaysians love *mamak's* cuisine or local mixed rice (*nasi campur*) with grilled fish (*ikan bakar*) or nasi ayam. He chose those menus in WC as they were well accepted by most Malaysians. He served a long list of menus in WC: from serving Malaysian best favourite cuisine like *nasi lemak* and *nasi ayam* to various *mamak's* cuisine as the niche cuisine. He also learnt from the success stories of the *mamaks'* restaurants before deciding on the whole *mamak's* set up of business. He duplicated the *mamak's* menu and restaurant setting to attract typical *mamak's* food 'addicted' customers. Apart from the *mamak's* cuisine and some local delicacies, there were also three attracting factors to WC: the 24-hours radio, TV and the WIFI services. His duplication proved to be successful when WC had been well accepted by many people since establishment. Due to its location, WC made the most profits compare to other outlets: the cash cow of Knots Group Café.

Food at KNOTS Café Wisma Central



KNOTS Café Daya Bumi (DB)

Kopitiam setting in DB was his next choice of restaurant setting. He got the idea after self-administered market survey on food preferences of the people who work in Daya Bumi. He found that they preferred Western and Malaysian fast food. Based on his simple market survey, he knew that he cannot operate DB like WC. As a result, he came up with six types of menus in DB: a fusion cuisine of another Malaysian best favourite cuisine like *laksa* and *soto* fused with western cuisine like chicken chop, fish and chips, steak, and mushroom soup with garlic bread. DB only operates during office hours as it is strategically located at the end of the basement parking of Daya Bumi.

Food at KNOTS Café Daya Bumi (DB)



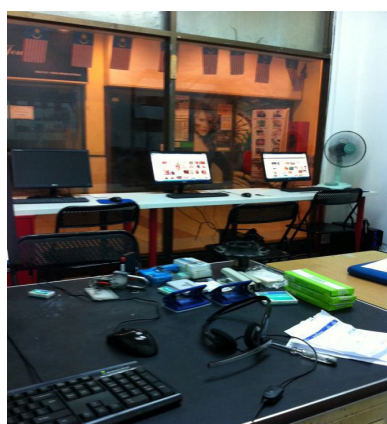
KNOTS Bistro Café KLCC (BC)

Knot's Wisma Central Café was just next to the Petronas Twin Tower Kuala Lumpur. As it was near to KLCC and having friends who were doing business there, Awie got an opportunity to open another café in KLCC, the Bistro Café (BC) KLCC. BC serves western cuisine only. It is also well received by many customers who visited and lingered around KLCC. This bistro set-up is in line with many other restaurants in KLCC.

KNOTS Pertama Complex (PC)

Awie rented one-fourth of a normal shop space in Pertama Kompleks. It was very small but just enough for Awie to set-up his office where he managed all his restaurant outlets. All his business related files were kept in PC. He also bought five computers which were set-up to provide quick internet services to passer-by customers in Pertama Kompleks. He also had his fishing and recipe books collection kept there for his reference. His newly started catering services business was also managed from PC. His catering package for weddings or corporate functions started from RM10 to RM15 per head. Nevertheless, the catering services were not a full-time business yet, as he was understaffed. After providing several catering services, he saw that it is a confirm-profit project if he could sustain the quality of his services.

KNOTS Office in Pertama Complex



KNOTS Management Practices

Even without any formal business management training, Awie believed that; *“If one can cook, one can manage and operate a restaurant”*. He also argued that; *“If anyone wants to open up a restaurant, he or she must be able to cook and must be passionate about cooking”*. He further said; *“One cannot jump into the restaurant industry without this basic attributes. Food must be everything in a life of a restaurateur”*. His wife is not a good cook and does not have passion for cooking. So she was in charge of the office work, managing the books of accounts and taking care of the petty cash. Awie’s wife could not bear the daily early wake ups to be at the restaurant. Instead, Awie would be the one to be at the restaurant as early as 4 o’clock in the morning especially when there were catering services to be done. He must make sure that all raw materials, cooks, and workers are always available to operate a restaurant. As the manager of the restaurant, he had to see that there is a cashier ready at the cash register with passion to work, and all the waiters and waitresses are ready to take orders or clearing up plates from the tables immediately without being told.

Awie managed all his restaurants from his new little office-shop at Pertama Kompleks. He believed that viewing his restaurant outlets from outside could enable him to see what he was unable to see from the inside. He also believed that if there were financial problems he must go back to check the overall operating system of the restaurant. He tried to discipline himself and his workers by following strictly to the standard operating procedures (SOP) working in and around a restaurant set by him. He knew that he could not entertain any less than the SOP if he wants to be successful in this industry. He was not willing to compromise on quality food services and taste. So to be more efficient and effective, it was good to have only one person managing all the restaurants. Thus his wife and his partner did not intervene in managing the restaurants to avoid conflicting instructions, opinions or decisions to his workers.

Awie had always wanted to attend formal management training. He wanted to learn the proper way of managing and operating a restaurant. Except for a week course on basic book keeping conducted by MARA, he picked up food costing skills only through experience without any formal course. The basic book keeping however had helped him to manage his cash book but not other books of accounts. Through his relationship with his auditor, he had also picked up other perspective of managing his books of accounts such as understanding how his business

profits are generated from operating the restaurants. He regularly asked his auditor to further explain his doubts on some of the items in the financial statements. His relationship with his auditor had been an effective learning session for him as he can understand better the interpretation of the final accounts.

Challenges in Developing KNOTS's Employees

Awie wanted to open up more new Knots. However, his intention was always held back because Knots was understaffed. His existing number of workers could not cater for another new Knots. He had seven cooks. Local cooks were difficult to hire due to long working hours. So he hired foreign cooks who were willing to work in three shifts daily. Cooks were highly paid for their skills and experiences whereas all other workers were paid around RM1,000++ depending on their number of overtime hours. He spent almost RM40,000 monthly only on staff salaries.

As he had duplicated the *mamak's* restaurant services concept, the *mamak's* quick service was practised. He trained his workers himself to acculturate this practice into their routine work. However, training foreign workers who spoke very little Bahasa Melayu was definitely a big challenge for him. There were not many options but to train them to become skilled workers. He also expected them to train other new workers after that. Most of Awie's cooks were not college-trained cooks but they were qualified through experience. He used to advertise job vacancies which took him a long time to get one. When he got one, he would personally interview them when they came for the job. Many who came for the interview as a cook demand salary as high as RM4,000 a month. He said that it was impossible for him to give that big amount of salary. People cannot expect high salary from a restaurant business like his.

To operate his multiple restaurant outlets, he was required to hire local qualified cooks, waiters, and stewards by the law. Awie had to comply with these legal aspects of hiring foreign workers. By law, the Work Force Department monitored the number of locals and foreigners working in a restaurant because NGO would curse the industry for not prioritizing locals when hiring workers. The Ministry of Home Affairs on the other wanted to see salary statement, bank statement, and working addresses of the foreign workers. The Immigration Department would hunt for working permits from these foreign workers. Awie thought that these enforcement

authorities are not synchronized in accomplishing their roles and duties. He said that he had to hire workers with differing skills thus differing productivity because they were 'used' workers from other sectors.

To maintain his inventory, Awie used to have a card system. But, it is always the human factor that was hindering smooth managing and maintaining of inventory records. He had to face the challenges of his foreign workers who were not able to do proper recording as they were not familiar with the language used on invoices or receipts or order form or other documentation and record keeping. Their writings were difficult to read due to the cursiveness or rounding writing of their mother tongue. He trained them to be skillful but when there were new workers then the problem repeats itself. He had to continuously retrain new workers as there was no choice for him.

Awie was happy that the retention rate was high among cooks at his restaurant outlets. Unfortunately, very low retention rate among social workers such as waiters, waitresses, and stewards. So he had to take in even unskilled social workers as there were no prompt workers to replace the old one. Previously some of these workers stayed with Knots between 5 to 6 years but lately he had to take in new trainees because they moved for better pay and working environment. He had to be selective when taking in new workers as the new intakes need very close monitoring. The locals were very difficult to get because they were generally selective on the types of job vacancies. From his observation, if there were any locals who were interested to work, they were either drug addicts, or drop-outs, or *hungry* job seekers. He noticed that these types of job-seekers would not last long. They would work for 2 to 3 days the most, then playing truance for several days. They could not accept comments from customers or advices or instructions from Awie. They were not like foreign workers who work according to the rules as specified. The locals usually demand their rights for leave, or else they take MCs, or work only from 8 to 4 but demanding for high salary. Normally these types of people could not deliver given or assigned tasks well. They could not work extra miles and were not consistent. After all, Malaysia has a lot of jobs. This had given them the advantage to hop from one place to another for better pay. This fenomenan happened in any big or small café or restaurant.

To help him with his catering services, he invited a share partner who works as a taxi driver to be the lorry driver and at the same time to be in-charge of 2,800 pax of catering projects.

In fact, for all his restaurant outlets, he appointed a person in-charge to monitor his workers who would provide a daily report. He also had a supervisor who is in-charge of reporting the whole operation of his daily business.

Material Handling and Inventory Management in KNOTS

Awie made around RM30,000 of daily sales. He assumed that he was making profit. However, Awie noticed that he could gain more profit if he could improve on his inventory management system. He realized that there were leakages in his raw materials and inventory such as lost of forks, spoons, broken cups, saucers, glasses and plates. Though that were common in a restaurant business, he was eager to improve his inventory system.

Meanwhile, in managing his raw materials inventory, he used inventory cards. But he said that he failed to monitor it properly because his foreign workers did not really understand the system. Furthermore, their hand writings were also not readable by Awie. In managing its raw materials inventory, Awie had set a standard maximum amount of inventory that should be available in his store. He had to ensure that there were sufficient opening inventory when he starts his daily operation. The amount of opening inventory available was very important in calculating the cost of daily raw materials used for all his outlets. It was very crucial to track the amount of opening inventory everyday because he had allocated a specific amount of money for the raw materials. He realised that each cooking activity involved the use of raw materials which must be closely monitored. To him, managing his basic raw materials inventory was just like prepaid transaction where he replenished the amount of raw materials used immediately. The basic raw materials were chicken, fish, mutton, beef, oil, soy sauce, sugar, mixed vegetables, turmeric, frozen materials etc. These raw materials information were maintained in stock cards. Awie assigned a person to check the amount of raw materials purchased. He had also assigned another staff to be in-charge of petty cash used to purchase the raw materials. Every month he would track and monitor the pattern of raw materials purchased to assist him in making future purchasing decision. Additionally, having sufficient raw materials would also ensure his daily business operation would be efficient. He would ensure that the raw materials store was full with

required inventory even though there was no business at least twice a week. He spent more than RM100,000 per month on raw materials.

All Knots outlets had different inventory of raw materials based on the concept of the restaurant. For the past three years, Awie used to go out buying his own raw materials for the restaurant operation. It was indeed very exhausting as he was looking for cheaper prices. He knew that he needs to buy in bulk to get cheap prices. But in the restaurant industry it was the right amount of raw materials that was crucial, or else restaurant operations would go hay-wire. While busy doing his own shopping of the raw materials and handling and managing the inventory of raw materials, he however neglected monitoring his staffs. Nevertheless, shopping the raw materials on his own had given him some understandings of the behaviour of the suppliers. Currently he had prearranged the purchase of raw materials from his selected reliable suppliers. It was very convenient as goods are easily returnable if they were bad. He did not have to travel to return it. The suppliers would come to his restaurant to pick up. He was given one week credit by the suppliers at a discounted price if he bought in bulk such as sugar, rice, and plastic bags. Realizing that self-managing the inventory was taxing, Awie appointed a person to be in-charge of the inventory inflow and outflow. He also expected an inventory daily report from him.

Awie would use his customized inventory system that uses an order form to purchase raw materials. The store would be filled twice a week. He assigned one person to be in-charge of ordering and collect the raw materials from the supplier if necessary. Then, another person would be in-charge of checking the raw materials when they were taken to the store. The inventory would be checked everyday. Awie assigned different persons for different tasks to minimize leakages. Then he went for the MYOB training. When he switched to MYOB he found that there were leakages due to lost in materials, mismanagement of inventory system and wastage. He now knew better about his inventory management flow. His financial statements were also ready just in time for audit because he did it himself using MYOB.

Though he maintained his own files in relation to food costing, but human problem had caused wastage in handling the amount of raw materials used in each cooking activity which he sometime missed. So he would regularly check the dustbin for wastage at night and the next morning. Awie was firm with his workers. If he was not satisfied with the amount of wastage he

would ask for immediate payment or he would deduct from their salaries for the wastage from the respective workers on duty.

Each restaurant outlet had its own store for raw materials. However, he had one main rented store in Ampang that stored dried raw materials, cutleries, serving utensils and all other cooking utensils. He hired a runner to get the raw materials from this main store as it was easily assessable to all his restaurant outlets. The rental was not expensive compared to future business potential in that location. He wished to have somebody who is willing and committed to work with him to open up Knots Ampang. It was a strategic location for food business growth. He claimed that he knew his general costing, rent and salary expenses. Thus if anything happens to his existing business, he would open Knots Ampang.

Initially, he did not have a proper office to manage all his Knots. So, Knots Pertama Kompleks was rented to manage all Knots outlets in 2011 that operated from 10 am to 12 pm daily. But it was not for managing only. He also provided printing and internet services to passer-by customers from this outlet as well as making deals for catering services.

KNOTS Financial and Cost Management

Awie did not apply any systematic costing method. He set the price of his food based on price survey of other people's food price. He followed his instinct costing practices to get the highest profit. He said that food businesses do not make much profit. For example, from selling *nasi campur* he only made 50 percent gross profit but he made high profit from beverages. After so long in this business, he usually reviewed his costing on a weekly basis. He had already captured certain costing experiences based on averaging, during office hours, morning, afternoon, evening or night sales. The reports from his supervisor would depict to him the pattern of sales and cost incurred either it was in the beginning of the month, mid or end of the month, festive seasons, or school holidays. It would be shown in the pattern reported. If he pasted the pattern on the map of the restaurant operation, it was almost similar. So it was not quite significant whether he did the costing daily, weekly, or monthly, he could easily forecast the cost. But the report would tend to change annually depending on how he organized his restaurant activities. He had not compared his business performance to other restaurant business. He only checked

them against his sales revenue. Normally, it was about 40 percent gross profit margin whilst the net profit was between 15 percents to 30 percents. The profit actually relied on the seasonal changes of the financial year. His company secretary advised him to watch on his expenses for the year, such that if he had a significant renovation expenses for example then profit would be less compared to only the cost of food.

He expensed between RM2,000 to RM5,000 a year for the secretarial service depending on the work done and RM5,000 to the auditor for the auditing service provided. Based on his secretary's advice, he would do his simple final accounts first before submitting to them to do the final 'touch-up' that requires more technical skills to comply with the legalistic aspects based on all the necessary documentation. However, managing accounts for one year would be a problem if he did not have proper record keeping of the related business transactions documents. His auditor would re-calculate and update information from his records to produce the actual financial statements. Many small entrepreneurs like him did not seek advice for proper record keeping or proper accounts or final accounts at year end.

Doing restaurant business like this, Awie knew that he must know his way forward, what he want from his business, and where he is heading to. Eight years ago he was not aware of MYOB. So he set up one new ruling with his partner in relation to the use of MYOB that bounded them with an agreement. However, his partner was not bothered about the change in the accounting system but Awie cared because he did not want to take any business risks for example in 10 years time from now. He insisted his partner to learn MYOB so that they are in the same direction, within the same wavelength of understandings. His accountant cum auditor could detect any errors in his work. They check very thoroughly and help him to manage his earnings because they understand and were very familiar with his business. They had been auditing his company's accounts since the last eight years. They watch his business grow. They helped him in managing his zakat and tax liability. This year he paid RM2,000 of *zakat*. Some of his other big annual expenditures were salary amounting to RM480,000, raw materials about RM1,000,000, and rental of restaurants about RM360,000. Other expenses incurred, for example; 24-hours lighting at WC with wifi-ready, TV, and fan.

Cost control management was fundamental in Knots. It was a big element in any business. So Awie had kept files of related cost control documents in relation to costing though

without any formal training background in costing. But he believed that he had managed to do his own costing based on logical calculation. Making sure that his restaurant operates everyday was most important to him. Every morning his restaurant outlets cashiers would collect opening cash balance from him. The CCTV would capture daily cash collection for opening balance and handing in sales report. In WC, he would collect closing balance every night before calling the day off. Timing to collect money from all cash register of all outlets was crucial so that the cash collection pattern was not obvious to potential thieves. Thus, if he did not feel comfortable on a particular day, he will change his route and collection timing. All cash collections were recorded accordingly.

He used MYOB to manage his financial and management information. Someone had helped him to start using MYOB the simple way. He key-in data of raw materials used into the system to run. With just a click, MYOB could generate the price of food that he sold at his restaurant including profit. He could view this on a daily basis as MYOB had helped him to monitor his costing practices.

To date, though his restaurant business was a partnership but he was the only one who knew the whole operation of all his restaurant outlets. Though without any formal accounting background, he could easily identify the cost of a bowl of *mee bandung Muar* using MYOB. If he wanted to know the cost, he just clicked on *mee bandung* then the cost would just pop-up because he had key-in into the system all required data of the ingredients of *mee bandung* at cost for each unit. If for example, the price of gas goes up next year, he needed to change the cost of the gas only. The system would do the rest. So he would know exactly how much increase in the price of *mee bandung* and the reason for the increase.

KNOTS's Plan for Innovation and Growth

Awie was in the process of branding Knots because branding is vital to stand out from the crowd of restaurant businesses. Just like Secret Recipe, Fairy, King, or Big Apple in the bakery industry which had created their own branding or the like. When a brand name had been established then people would look for the brand not for the taste anymore. He had located Knots Dayabumi and Knots Wisma Central at the crossroads to Petronas Twin Tower. He had

sustained this business for almost 10 years and he owned the brand name “*Knots....Knots....Knots...I came, I saw, and I conquer*”.

He wanted to start a franchising *mee bandung Muar* kioks in Kedah by duplicating the *char kue tiau Iman* ready-gravy concept. So his secret recipe for *mee bandung Muar* was in the gravy and the spiced chicken. Franchisee would have to follow the recipe closely and would get the same taste throughout Malaysia to make it a brand name like *Laksa Telok Kecai*. Though the taste had changed but Malaysians know it as it had gone through the branding process through the ready-gravy concept that ensured the consistent savoury taste.

Second, he wanted to be known as the Pancing Chef by publishing a book titled *Pancing dan Masak*. He had designed the book to include how to prepare healthy food and healthy eating. He wanted to make a brand name from this book project. He wanted to share with people about food with character by highlighting the fishing site, proper fish cut and to cook the tastiest fish ever. Viewing his dream at his website, reminded us at Chef Wan. Awie’s aura was different. He was a chef from the ship who had changed the discipline of respecting people, and maintaining good communication through food businesses.

Third, he wanted to enlarge the scope and coverage of his catering services. He had tried on a small scale and he could see that his business was making good profit. So why not? He also planned to establish a company for his kids. He claimed that three years from now is possible to design a hi-tech franchise business. There were a lot of plans in his mind such as: to go for more business training, management training, and to translate his book into English for international market. He had assigned an artist to design the cover, to create mind maps of his life history; from maritime, to hotel, to rivers, to lakes and to man-made lakes. A story was created from this flow. He was in the process to do a TV cooking show featuring the ultimate chef from the river to fine dining. His focus would be on cuisine based on caviar.

Unfortunately, he saw his future in this industry scattered. He saw franchise business, he saw his *Pancing dan Masak* book, he saw more new Knots every year, and branding Knots. But managing and catching up with time was his biggest worry.

Conclusion

Awie reflected on the importance of an effective business management system for business sustainability that he learnt from the seminar. He consulted the Ministry of Entrepreneurial Development. An entrepreneurial consultant was assigned to assist Awie to review his management practices. In preparation for his meeting with the consultant, Awie had asked his associate to help him think through the basic information for the review process. In two days the consultant visited his new office in Pertama Kompleks and other food business outlets. Awie briefed him on how he started the business, background, business operations outlets, his management practices, and his future plans. Indeed, from a small café, Knots had grown into Knots Group Café, yet Awie was now worried about his management practices realizing that he lacked proper management knowledge and skills. His business management practices were gained only through experience managing Knots Group Café for more than ten years. The one-day seminar that highlighted the survival of Bumiputra entrepreneur had opened up Awie's view on the need for an effective business management. Knowing the fact that good management practices would help to improve his business performance, Awie decided to review his management practices to align with his business growth strategy. He was certain that he would find out his strengths and weaknesses in restaurant management. At the same time, the review process would also unveil business opportunities and threats that he could capitalize for his business expansion strategy. He wondered if there is an effective business management system that he could adopt and adapt into his current business as one of his business growth strategies.

TEACHING NOTES

KNOTS GROUP CAFÉ – COPING WITH MANAGEMENT PRACTICES

HAZELINE AYOUP
ROHANA-NORLIZA YUSOF

SYNOPSIS

Awie Mahmud, an ambitious restaurateur of Knots Group Café in Kuala Lumpur attended a seminar for Bumiputra entrepreneurship. Awie developed his restaurants based on his knowledge and experience in cooking – without any formal training in management. At the time the case is written, March 2011, alarming by a speech made by a speaker in the seminar, Awie realized that his lacking of knowledge in management practices has lead to inefficiency in many aspects of Knots' business management. He also realized the need for knowledge to improve his cost management practices to improve Knot's financial performance and the way to expand his business further. Awie is facing with significant challenges:

1. After 10 years in the business, Knot's has grown into a chain of restaurants, however, Awie was dissatisfy with his current management practices and need help to improve it.
2. Awie also need to understand an appropriate cost management practices that can be used to improve his financial performance.
3. Being a restaurant owner, Awie is keen to see his 'Knots' grow to become a well known restaurant. He was facing a challenge on how to move forward as he has many ideas in mind.
4. As an ambitious restaurant owner, Awie also faced a challenge in managing his staff.

USED OF THE CASE

This case is designed to be used in a variety of courses, as it draws attention to various ranges of management issues. This case is suitable for a second or third year undergraduate students in business management studies. This case may stimulate analysis and discussion of issues in managing organizational growth. The case explores on the roles and responsibilities of a business owner as a manager to a company it can be used in a first-year introduction to management course. In addition, as this case also presents various opportunities for growth, this case can also be used in as a Strategic Management case.

LEARNING OUTCOMES

At the end of the case study students should be able to:

1. recognize the role of management and managers a restaurant chain/ business.
2. identify the elements that affect the profit and loss of a business.
3. identify and explain possible sources of a business competitive advantages and disadvantages.
4. identify and explain possible strategies that can be used to grow a business/ restaurant chain.

TARGET GROUP

This case is suitable for:

1. First year undergraduate students pursuing a bachelor degree in Business Management, Accounting, Hospitality Management and Entrepreneurship Management.
2. Managers and executives.

CASE LEADING/TEACHING STRATEGIES

There are various ways to open for discussion in the class.

1. Students can try to play the roles of Awie. For this purpose, a student may be selected or volunteer to play the role of Awie and ask opinion from members of the class to help him solve the problem. Other students can be requested to give their suggestions to help Awie and provide rationale for their suggestion. In this way, this case stimulates students to link their knowledge on management theory to the case situation and provide alternative solution to Awie. To stimulate discussion among students, question such as “Why do you think Knots have small profit compared to its revenue?” Students are not required to come out with financial figures. The aim of this question is to lead students to identify factors affecting the profit of a restaurant/ organization.
2. After identifying the relevant factors which affect final profit of a restaurant, the discussion can be shift to analyze each of the factors, students can be ask to identify whether it is internal or external to the organization. Factors emphasize in the case such as employee management, inventory management, and managing many branches which provide various types of food required Awie to carefully and systematically design a control system which is vital for Knots success.
3. Next students can discussed further on the internal and external factors such as the industry itself, competitors, customers preferences, quality of food etc. which will open up the students’ views on how these factors are in actual is interrelated and link the relationship between theories which they learn in class and the practice.

Another way of conducting the class is by giving the case to the students before class. Then, remind the students to update themselves on the following topics roles of a manager, organizational critical success factors, elements of a financial reports, performance management and management control system and strategic management theories.

Then, divide the class into groups of 4 members. The suggested class procedure:

- Call any group to present the case based on their preparation before class.
- Call a group that has already been assigned to present the case.
- Then begin with group discussions to discuss possible issues from the case.
- Get some students to identify and describe the problem in the case.
- Provide the questions leading to the focused issue relevant to the students/topic under concern.
- Groups are given about 20 minutes to answer the provided questions.
- Discuss the answer to the questions by calling students to provide answers based on the group's discussion.
- Establish a panel discussion with the instructor as chairperson to get to the focused knowledge students are expected to understand and appreciate.
- Conclude the session with closing remarks and assignment instructions.

Student Learning Time:

- Reading relevant materials and understanding the required concepts – 4 hours
- Reading the case and understanding the problem/issues of the case – 2 hours
- Class discussion - 3 hours

SUGGESTED QUESTIONS

1. Due to Awei's lack of knowledge on business management and the facts that he is managing the business on his own, advise Awie on the functions of management and how he can play his role in carrying out those functions.
2. Identify and explain the possible causes that have led to unsatisfactory profit margin?
3. Using Porters' Five Forces Model of competitive analysis, advice Awie on Knots' competitive advantages.
4. Using Michael Porters' Generic Strategies Model Based and Knot competitive advantages analysis, recommend strategy that can be used by Knots' to secure its competitive advantages and grow the business in future?

Prepare a report of your recommendations to be presented to Awie.

SUGGESTED SOLUTIONS FOR DISCUSSION

Q1: Due to Awei's lack of knowledge on business management and the facts that he is managing the business on his own, advise Awei on the functions of management and how he can play his role in carrying out those functions.

In order to be able to systematically manage Knots, Awei need to know his roles as the managers and the function of management in the process of managing his own organization. Basically, there are five activities of management that are:

1. Planning
2. Organizing
3. Motivating
4. Staffing
5. Monitoring and Control

In the planning stage, Awei should be able to determine his short and long term plan for Knots. This stage includes forecasting future of his restaurant, establishing objectives such as sales and profit objectives; developing strategies to achieve those strategies. As Awei has various plans in his head, what he should do is, to categorized and ranks those ideas into his short and long term plan as well as prioritized those plans according to Knots and his strength and weaknesses.

In the organizing stage, the activities include those activities which result in a structure of task and authority. The activities involved in this stage include organizational design, job specification, job description, spans of control, coordination, and job design and job analysis. Awei must be able to first design Knots' organizational structure to be able to determine the chain of command in the organization. Then, he should design and provide job specification and job description to his employees to create effective and efficient operational process for Knots chain of restaurant. Coordination is also very important as Knots restaurant is located in various locations around Kuala Lumpur and he only has one main store for his materials, time management and organizing is very crucial to ensure efficient and effective business process.

As Awei is the only person managing Knots chain of business, **motivating** his staff is crucial to retain his best staff and at the same time improve his business. Motivating staff involves issues such as leadership, communication, group work, delegation of job and authority, career enhancement, job satisfaction and morale of employees. As Awei mentioned, managing 40 staff is a challenge for him especially to train new staff and handling foreign workers who do not speaks Malay.

Staffing involves activities focused on personnel and human resources management. Basically staffing activities involves wage and salary administration, employees' benefits, interviewing,

hiring, firing, training, management development, employee safety, career development and discipline policies. Though Knots is only a small business, this aspect of management is crucial to sustain its business performance specifically profit. As his company is still small, the most important elements in staffing is employee wage and salary as offering high salary and benefits to employee will increase Knots operating cost, while low salary will result in employees switching job.

Monitoring and Control refers to activities that are focused on assuring that actual result is consistent with the planned targets. The main areas of concern include financial control, quality control, sales control, inventory control, and expense control, analysis of variances, rewards and sanctions. Referring to the case, Awie need to improve much of his control system such as inventory management system, cash management system, expense control and waste management control system.

Q2: Identify and explain the possible causes that have led to unsatisfactory profit margin?

Profit and loss elements – revenue, cost and its relation to profit. In order to improve his profit, Awie need to be able to clearly identify his sources of revenues and analyze revenues generated from each of his Knots branches. In this way he will be able to identify which segment of business is generating the highest profit for his company.

Next, Awie must also be able to identify the cost elements in his business – mainly raw material, labor and overhead. Knowing these elements, he can then identify which elements give the highest cost in his restaurant management and close monitored which costs items can be reduce without tarnishing the quality of its restaurant service.

As Awie might be satisfy with the sales/ revenue generated, thus the focused to facilitate Awie to properly manage his costs/ expense to ensure better profit margin.

As the case does not provide details financial figures of revenues and costs incur in the business, student can provide a general guideline on factors affecting profit margin of Awie’s business.

Q3: Using Porters' Five Forces Model of competitive analysis, advice Awie Knots' competitive advantages.

For the in-class discussion purpose, students may be asked to identify various types of model that can be used to analyze organization's competitive advantages. Then the discussion move forward to specifically discussed Porter's Five Forces Model.

Porters' Five Forces Model of a competitive analysis suggested that the nature of competitive analysis of a particular industry can be viewed as a composite of 5 forces that are:

1. rivalry among competitive firms
2. potential entry of new competitors
3. potential development of substitutes products
4. bargaining power of suppliers
5. bargaining power of consumers.

Based on this points of views, students can be ask to discussed how each of these forces affects Knots business and its competitive advantages.

Rivalry among competitive firms: This is the most powerful of the 5 forces (David, 1997). Porter suggested that the larger the number of competitors in the industry, the greater the intensity of rivalry among competing firms. In this situation, strategies pursue by an organization can be successful only to the extent that it provide competitive advantages over the strategies pursue by its rival.

Potential entry of new competitors: This force exists as a result of new entrance into the market. When a market is easily entered by new organizations, the intensity of competition among competing organization increased. As such organization may use strategies such as gaining customers loyalty, unique product's and strong brand preferences to secure its competitive advantages.

Potential development of substitute's products: Existence of substitute products put a ceiling on the price that can be charges before the consumers started to switch to the alternative products. Competitive pressure from substitute products or services increased as the relative prices of the substitute products/ services decrease and customers' cost of switching to other competitors is small/ decreased. In this case, is there any other restaurant provide similar arrangement of food in the area?

Bargaining power of suppliers: pressure from suppliers bargaining power exist when number of suppliers is few and there are many competitors and the cost of switching raw materials is high.

Bargaining power of consumers: pressures from customers' bargaining power exist when the customers are concentrated, large or buy in volume and there are many rivals in the industry. Competitors may offer better services such as extended warranties and special services to gain customers loyalty. How do these factors affect Knot's business?

Q4: Using Michael Porters' Generic Strategies Model Based and Knot competitive advantages analysis, recommend strategy that can be used by Knots' to secure its competitive advantages and grow the business in future?

For the in-class discussion purpose, students may be asked to identify various types of strategies that can be used by organization such as integration strategies; intensive strategies; diversification strategies and defensive strategies. Then the discussion move forward to specifically discussed Porter's Generic Strategies

Porter's Generic Strategies Model suggested that organizations can gain competitive advantages in its industry from three different bases that are **cost leadership, differentiation and focus strategies**. **Cost leadership** emphasizes that organization can gain competitive advantages by producing standardized products at a very-low per unit cost for consumers who are-price sensitive. On the other hands, **differentiation** strategy aims at producing products and services which is unique and is directed to customers who are relatively price-insensitive. **Focus** strategy aims at producing products and services that fulfill the needs of specific or small groups of customers.

To be able to identify an appropriate strategy to be implemented for Knot's, Awie need to firstly identify Knots' strength and weakness and also what are the opportunities and threat faced by his chain of restaurants. Below are few suggested ideas on Awie's and the restaurant SWOT. Students may point out other plausible ideas for the analysis and suggested other plausible strategies to be implemented by Awie.

Awie's and Knot's strengths and weaknesses of existing management practices.

	Strenght	Weaknesses
1.	Awie's character – enthusiasm, creativity, friendly.	Lack of knowledge
2.	Positive attitude.	Majority foreign workers
3.	Cooking experts – lots of experience.	Difficult to get competence staffs
4.	Networking- lot of friends	Unskilled/ semi-skill workers
5.	Various market segments- current focused.	

Opportunities and threats of existing management practices

	Opportunities	Threat
1.	Demand for his expertise – cooking – book and training.	Easy entre to the industry – competition from other Mamak’s restaurant in the area.
2.	Demand for Malay foods.	Dependent on suppliers for raw materials.
3.	The location – access to various locations in Kuala Lumpur. Open opportunities for various market segment for his food.	Perishable raw materials.
4.	Access to people.	Government regulation on foreign workers.
5.	Demand for dry food- developed new food product- e.g.: crackers – expand market.	Increase in the price of raw materials.
6.	Produce dry food – this type of product can be market to more location- however, need to ensure commitment to production. – may be on contract basis.	Climate change affects supply and price of raw materials
7.	Government incentive for entrepreneur.	
8.	Access to knowledge.	
9.	Access to networking – opportunities for diversification.	
10.	Globalization	

1. Looking at the current market segment of Knots business, Awie’s is focusing very much on the restaurant for middle and lower income customer. Even the Kopitiam which served western dishes is also not focusing its services for high income customer. Thus, if Awie wanted to expand his business, he may possibly venture into another market segment which focused on high income customers. With Awie’s expertise in fine dining, he may be able to capture another category of customers who may give him a larger profit margin compared to his current customer. (focus and differentiation)

2. Another strategy that can be implemented by Awie is, to repackage his food and offer certain low price food for breakfast, lunch or dinner. With his expertise, he would be able to offer good and delicious at a reasonable and low price.

3. Besides, limiting the types of strategies to Porter’s Generic model, Awie may use other types of strategies to expand his business in long term such as venturing into the dry food market, writing books, providing cooking classes- based on various cooking concepts such as healthy cooking recipe. At a larger scale Awie may be able to open his own cooking academy by taking advantage on various government incentives to build and developed Malaysian entrepreneur.

