

INNOVATIVE ENTREPRENEURSHIP – THE KEY DNA FOR A SUCCESSFUL TURNAROUND IN THE HOSPITALITY BUSINESS

**With specific Reference to the Hospitality Sector - Small and Medium sized Hotels in
Mumbai.**

By

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ABSTRACT:

As the business environment is becoming increasingly more complex, accompanied by intensified competition, rapid advances in technology and most critically, rising churn, be it customer or employees, there is an unprecedented rise in corporate failures today. And, just as amazing as the increasing number of failures, is the fact that most of the companies that attempt a recovery, also fail.

Against this backdrop, it makes sense for companies to understand the reasons for their decline, in their performances, and find ways to avoid a potential bankruptcy situation.

However, sickness is not restricted to corporates only. The same factors that cause sickness in corporates are also reasons for sickness in small and medium sized businesses. However, the gravity of the factors may vary and it would be pertinent to say that the study of failure and turnaround for small and medium businesses should be separately undertaken as the rules of the game for the large corporate houses need not necessarily be the same for the small and medium sized entrepreneurs. The Hotel Business or the Restaurant business is one category, which deserves special interest.

These category of hotels and restaurants are typically called as UDIPI HOTELS which primarily serve SOUTH INDIAN DISHES like Dosas, Idlis etc. Many have diversified into serving the NORTH INDIAN DISHES like Parathas etc.

Surprisingly several such UDIPI hotels are not able to match the onslaught of the changing demands of the Indian Customers especially in terms of new dishes, Chinese and other oriental dishes etc. The net effect has been that some of them have fallen by the wayside – a sick company. The problem for these small and business enterprises gets compounded when one realizes that the SICA and BIFR (Sick Industries Act and Bureau of Financial Reconstruction) are not in a position to help these organizations.

The restaurant business category contributes substantially to the GDP of the country.

The issue is what are the reasons for sickness in this category and what is the role that the entrepreneur plays in the successful turnaround of ailing restaurants. Can Innovation play an important role in nurturing these units back to their original glory?

This paper aims to study the various strategies that have been used by the hotel sector in order to turn themselves from a sick organization to one of the topmost organization in their field.

The study was limited to the hotel industry in Mumbai due to cost and time constraints.

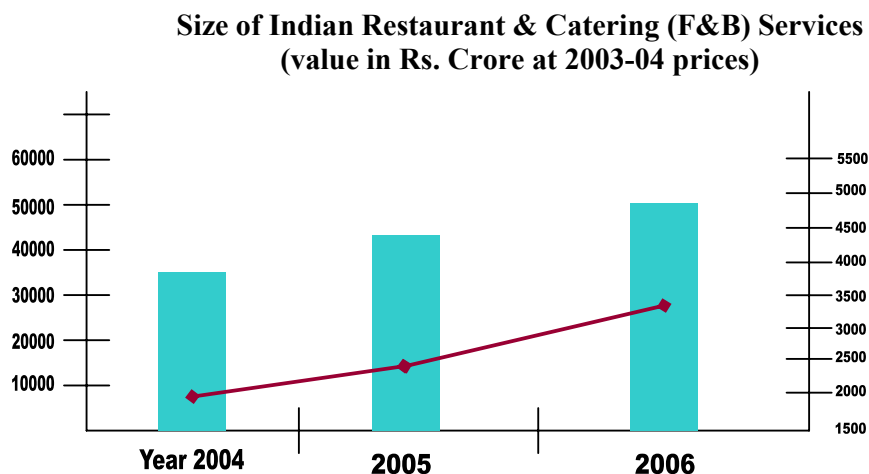
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INTRODUCTION:

The Indian restaurant services sector is estimated to be worth Rs. 57,000 crore, out of which only Rs. 3,940 crore or 6.9 percent is accounted for by the organized sector. The vast unorganized segment mainly comprises street-side stalls/kiosks constituting the majority of consumer food-service units and is characterized by intense fragmentation and a virtual absence of standardization of operations. This segment was Rs. 35,000 crore in 2004, which grew by about 18 per cent to Rs. 41,400 crore in 2005 and in 2006 the segment recorded a growth of nearly 19% over previous year and stood at Rs. 49,200 Crore. (basis: constant prices – 2003-04 price base). Fig. 1 gives the details of the growth of the Indian Restaurant.

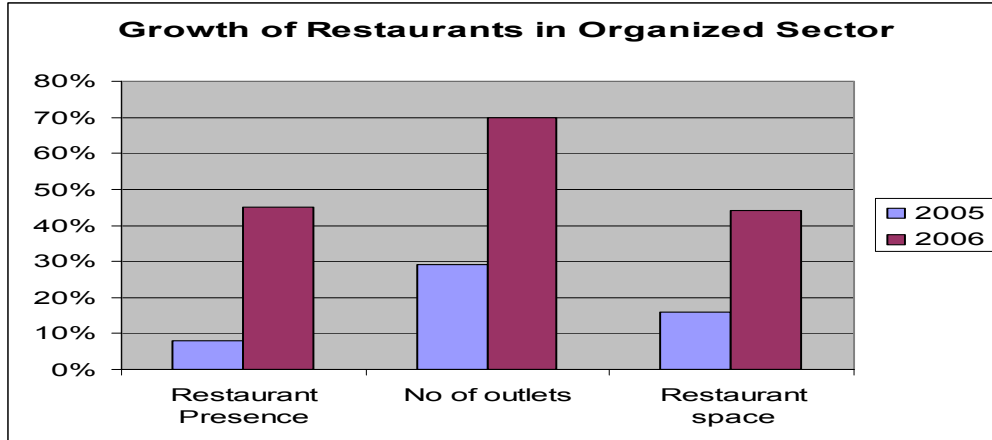
Figure: 1.



*Source: India Retail Report- 2007, India Retail Forum 2007.

The following table shows growth of restaurants in the organized sector.

Figure: 1.1



***Source: India Retail Report – 2007, India Retail Forum 2007.**

Major domestic and international players in the arena have on an average extended their retail reach by 45 percent in 2006 as compared to 2005. Tier II cities are currently the biggest growth drivers. Additionally investments in supply chain management are another important issue that must also be kept in mind.

The total number of outlets increased dramatically in 2006 registering a year on year growth of around 70% as compared to a y-o-y growth rate of 29% in 2005.

The evolved Indian consumers are invariably seeking variety and are willing to experiment with new cuisines. KSA Technopak's studies have shown that while in the US seven basic meals cover 80 percent of all 'dinner at home' occasions, in India 15 meal types cover only 60 percent of 'dinner at home' occasions. The trend towards home delivery is also fast gaining popularity, with value sales shooting the roof over the last couple of year. India is one of the few countries where McDonald's has introduced its home delivery service.

In an environment that seems to be transforming itself with every new technology, marketing tactic or investment strategy, businesses rush to embrace change by trading in their competencies altogether – all in the name of innovation. But generating new ideas does not automatically result in innovations and success. It is only the beginning of the journey. The real challenge for an organization is to convert these ideas into acceptable products or services for customers. This can happen only when organizations design and implement a structured approach to managing innovations.

Innovations are very important in the services sector, especially in the hospitality sector and albeit in the small and medium sized hotel business. The restaurant business requires entrepreneurs to continuously come up with new dishes; new ways to present or serve existing dishes, new services or schemes to satisfy customers, new ways of enhancing their ambience and new processes to economize operations. Without innovation, restaurants face the threat of becoming 'obsolete'- leading to sickness – and ultimately driving them out of business or forcing them to hand the business over to a more efficient and innovative entrepreneurs.

The study was conducted essentially in the restaurant and catering sector. The study was limited to the “small sector” typically what is called in Mumbai parlance as a “Udipi Hotel”. A “Udipi Hotel” can be defined as a typically South Indian dish serving type hotel. But others serving North Indian dishes like Parathas or Snacks or even those serving lunch and have a Bar is also being termed as “Udipi”.

LITERATURE REVIEW:

Not many studies have been conducted in the area of successful turning around of small and business units especially with respect to the hotels – Udipi Hotels. Most of the studies are general in nature and are aimed at the large corporate hotels.

Sonia Bharwani, “Successful Hospitality Innovations–Case study of Oberoi Resorts.” Institute for International Management and Technology, The 2nd International Conference on Services Management, 1st June 2007 ¹ evaluates the success of the Oberoi Group’s innovation of luxury resorts, by measuring across a number of dimensions like improved image, customer loyalty, revenues etc. Michael Ottenbacher and Juergen Gnoth, “How to develop successful Hospitality innovations.” Cornell Hotel & Restaurant Administration Quarterly, May 2005 ¹ identifies nine factors that drive successful innovations in the hospitality service industry. Viz. 1) Market selection. 2) Strategic human resources management. 3) Training of employees. 4) Market responsiveness. 5) Empowerment. 6) Behavior-based evaluation. 7) Marketing synergy. 8) Employee commitment. 9) Tangible Quality.

Cathy Enz, Judy Siguaw, “Innovations in hotel practice.”, Cornell Hotel & Restaurant Administration Quarterly, October, 2003.² talks about the importance of innovative ideas and practice in the hotel industry.

Dr. Ramamirtham Gopal, research paper on “Innovation – The key strategic weapon to Increase Competitiveness – A model to measure the impact of Innovation on the value of Business”, Allied Publishers Pvt. Ltd., 10th International Annual Convention on Strategic Management, 10 May, 2007. ³ talks about the various types of innovations that takes place in the industry and the impact of the innovations on the value of the business. The paper brings out the difference between product innovation and process innovation. It also talks about Competitor centered and Customer centered innovation. The paper effectively brings out the importance of innovation for maintaining the Sustainable Competitive Advantage and how it ultimately results in an increase in margin or an increase in volume. The paper ends with some useful observations from a selected few sectors such as the hospitality and hotel sector offering insight as to the importance of innovations and how to measure the impact of these on the profitability of the firm.

RESEARCH OBJECTIVES DEFINED:

The specific objectives of the study were:

1. To determine the causes of sickness, especially in small businesses with special reference to the hospitality sector – small and medium hotels
2. To understand the strategies adopted by entrepreneurs in bringing about successful turnaround.
3. To recommend action plan for a successful turnaround in the hospitality sector.

RESEARCH METHODOLOGY:

The first step in the research processes was to determine the issues that need to be addressed for the purpose of the study. Initial talks and discussion were held with people from the service sector as well as the restaurants industry in consultation with the guide. Review of various data and literature available regarding all issues connected with the research was extensively undertaken. Books from various libraries were perused and the relevant ones were studied in detailed. Various journals magazines and research papers were referred too.

Several web sites were browsed and relevant data was accumulated The descriptive survey helped in preparing the ground work for the next step i.e. the field survey.

Historical Survey: The geographic area chosen for the survey was Mumbai city for the purpose of convenience. There is no official published data available giving the details of “Failed Restaurants”. Nor has there been any official or unofficial study known to have been conducted in this area of the small and medium sized hotels especially the UDIPI HOTELS.

Research Instrument used in the study: In order to achieve maximum information from these Industrialists (who are typically from Mangalore and are not generally known to be open to discussions about their business), exploratory research was predominantly used. Additionally certain quantitative information was also obtained by using the Likert scale of measurement. A 5 point scale was used where ever necessary.

The sampling design: The Sampling design used for the study was a combination of convenience and judgment sampling. A detailed search was conducted to identify small / medium restaurant who had failed and have turnaround and also those who have not been successful in turning around. As mentioned earlier there are no official records available of the total number of such restaurants (small/medium) in the city of Mumbai. The “Word of Mouth” search revealed that in Mumbai there would not be more than 100 to 150 small/medium restaurants / hotels who have failed and than succeeded. A comprehensive list of these restaurants was not readily available. Of these estimated 150 small and medium restaurants / hotels who have failed, a judgmental and convenience sample of around 20 was selected. Data could be obtained only from around 10 hotels while the rest were not willing to speak about their successes or failures

Sr No.	Location	Number of Hotels in sample	Number of Hotel from whom data could be obtained
1	Borivali to Andheri	1	-
2	Andheri to Bandra	2	1
3	Bandra to Dadar-Wadala	8	5
4	Dadar to V.T.	7	3
5	V. T. to Colaba	2	1
	Total	20	10

Table: 1. Sample Design

Data collection: Both primary and secondary data were collected for the research. The interview was conducted in a mix of all the three languages viz. English, Hindi and Tulu — the language of the owners of these Udipi hotels.

Data Analysis Stage: Data collected through primary and secondary sources was tabulated and summarized so as to draw logical conclusions.

Limitations of the study: The study was confined to Maharashtra and therein Mumbai due to cost and time constraints. Only the Entrepreneurs view was used for the purpose of study. The views of the customers of these restaurants were not considered.

FINDINGS OF THE SURVEY:

An attempt was made to link the innovative strategy used with the profitability of the business. However these attempts were not successful since almost all the restaurants used the CASH SYSTEM for collection and disbursal of revenues / expenditures. Reliably it was learnt that the balance sheet prepared may not necessarily reflect the true picture of the business.

Most of the organizations attributed their success to the impact of INNOVATION— innovation in the type and nature of cuisine offered to their customers. Additionally the ambience created especially exclusivity as well as openness was another cause for their success.

Table 2 gives the details of the innovative strategy – the new cuisines that were introduced, for turning around their business. It was observed that introduction of the Chinese type of food and blending the same with the Indian dish were the main drivers for the change.

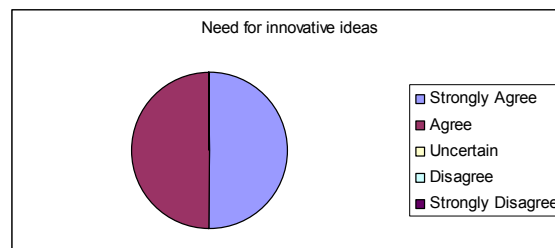
Name of the Restaurant	Main Innovative Strategy Adopted
DP's Fast Food	Innovative offerings – Fruit beer, Introducers of Schezwan Dosa & Idli Chilli, Innovative schemes for customers
Jai Hind Lunch Home	Exclusive seafood items – stuffed bombil, leaf wrapped fry fish, Process innovations.
Fric n Floe Fast Food	Innovative stand-out Décor and Ambience,

	Innovative Dishes
Canara Lunch Home	Category segregation, Plush ambience at affordable Rates, with different sections in hotel.
Harish Refreshment	Innovative Dishes – Chicken Idlis, Fish Dosa, Candle light dinners on certain days of the week.
Sizzling China	Innovative dishes’ Chicken wrapped prawns, Momos, Exotic Sauces.
Mahesh Family Restaurant	Incentives to customers, Gifts, Discounts, On the house treats.
Laxmi Vilas Hotel	Speciality Konkani GSB Food & Speciality Amul Fry Misal, Milk pudding, Free trials of new dishes.
Ram Vijay Lunch Home	Day and Night Chinese Food, Innovative dishes
Swagat Refreshments	Speciality Variety Jain Food, Free gifts to children & customers

Table 2 — Type of Innovations.

NEED FOR INNOVATIONS

Almost 100 % of the respondents indicated that innovative ideas were a must for an entrepreneurial venture like a hotel business. 50% of the respondents agreed while 50% of the respondents strongly agreed.

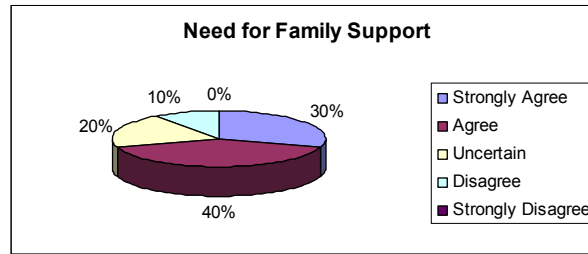


NEED FOR FAMILY SUPPORT.

70% of the respondents indicated that there was a need for family support. The unofficial discussions indicated that family included also the EXTENDED FAMILY – friends were also included as family members.

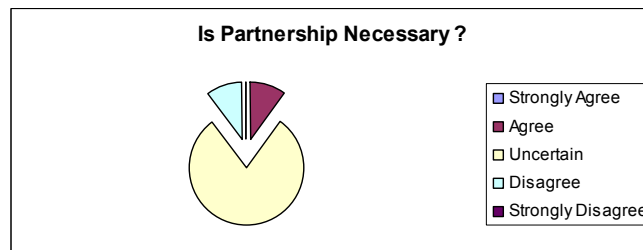
Further probe into the definition of support included not only monetary help but also help in getting some clearances from the various statutory authorities like the municipal offices or from the shops and establishment departments etc.

A very small margin about 10% indicated that there was no family support at all in turning around the business.



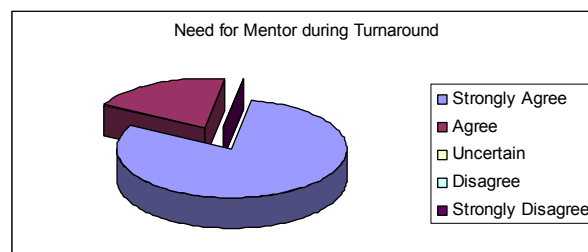
NEED FOR PARTNERSHIP DURING THE TURNAROUND PERIOD

Almost all the respondents indicated that Partnership was not at all necessary and was not desirable during the turnaround period. While many felt that family including extended family and friend support was a MUST, however many felt that including them in the ownership and hence a share in the profits was a clear NO NO.



NEED FOR A MENTOR DURING TURNAROUND.

All the respondents felt that a MENTOR or a FATHER figure was a MUST during the turnaround period.



REASONS FOR SICKNESS IN RESTAURANT BUSINESS.

On querying as to on what were the causes for the businesses to go sick. It was found that Mismanagement and losing sight of business (i.e. not concentrating on the several business issues) were the main causes for the sickness. Surprisingly luck did not play any role.

Table 3 gives the details of the causes.

Name of the owner	Mismanagement	Insensitivity to external Factors	Bad Luck	Unable to update Business	Losing Sight of basics					
JK	+	+	+	+	+	+	+	+	+	+
VS	+	+	+	+	+	+	+	+	+	+
GS	+	+	+	+	+	+	+	+	+	+
HK	+	+	+	+	+	+	+	+	+	+
MJ	+	+	+	+	+	+	+	+	+	+
GIS	+	+	+	+	+	+	+	+	+	+
RS	+	+	+	+	+	+	+	+	+	+
SS	+	+	+	+	+	+	+	+	+	+
MS	+	+	+	+	+	+	+	+	+	+
CK	+	+	+	+	+	+	+	+	+	+

Please note the name of the owner has been disguised.

+ = Not so important +++++ = Very Very Critical / Important

Table 3 Main cause for the business falling sick

IMPACT OF INNOVATIVE SOLUTION (MAINLY INNOVATIVE ON CUISINE AND AMBIENCE) ON THE PROFIT MARGIN.

All the respondents indicated a substantial increase in profit margins. It must be noted that these figures could not be corroborated with their accounts books. Table 4 gives the details.

Profit Margins Before and After Turnaround.		
Restaurants	Before	After
DP's	12%	28%
Jai Hind	15%	30%
Fric n Floc	15%	27%
Canara	20%	33%
Harish	18%	30%
Mahesh Restaurant	15%	32%
Shree Ram Vijay	12%	25%
Swagat Refreshments	15%	28%

Table 4 – Impact of innovative solutions on the profit margins.

EFFECT OF INNOVATIVE ENTREPRENEURSHIP ON ANNUAL TURNOVER BEFORE AND AFTER TURNAROUND AND ALSO POST EXPANSION.

The average annual sales also showed a phenomenal increase due to the impact of the turnaround cause by the innovative strategies employed by the entrepreneurs. However these figures could not be corroborated with the account books.

Average Annual Sales in Rupees			% age growth in revenue
Hotels	Before	After	
DPs	1000000	10220000	1022%
Fric n Floc	950000	6500000	684%
Jai Hind	1300000	10200000	785%
Canara	5400000	14500000	438%
Harish	5500000	9500000	433%
Mahesh Restaurant	400000	10300000	2575%
Shree Ram Vijay	1100000	4500000	500%
Swagat Refreshments	1080000	54000000	5050%

Table 5 - Impact of the Innovative Solutions on the Revenue of the business

MISCELLANEOUS ISSUES:

The discussions also revealed that the hotel business posed many issues and challenges. Some of these issues and challenges are given below:

- It is a complex business. The combination of purchasing, manufacturing, sales and service are only the beginning. The raw material is costly and perishable. The closing inventory of finished goods is always invariably equal to zero. Excess food is mostly given to the bovine animals.
- The nature of the customer varies from that in other businesses by their expectation; they do not only buy food, they expect to buy it appetizingly prepared and pleasantly served. They expect good value, comfort provided by compatible décor, good comfortable seating, lighting, heating, cooling, cleanliness, courtesy, and with the absence of noise, odors and long waits.
- The equipment is expensive, out of proportion to its fragility. Crockery, exhaust fans, ovens, refrigerators, slicers, toasters, food processors, fryers, and broilers are delicate and sometimes dangerous. The loss of linen and silverware, the breakage of china and glassware, and the pilferage of foodstuffs and beverages can be financially fatal.
- Well-trained help is hard to find because wages are often less than in other industries, the stress is high, and the work is hard. There is high attrition rate and by the time you have put in great effort and trained a person it is often found that he switches over to another job and one has to start all over again. The working hours are invariably long almost 12 to 15 hours. The employees are less educationally qualified and yet are expected to be good at mathematics and memory power.
- The restaurant owner is subject to licensing, inspections, and scrutiny by nearly 20 regulatory authorities and must insure against several risks.

- **Business volume is limited by seating capacity. The responsibility for the safety and security of customers and workers is awesome. The profit margin is low and the hazards / risks are high. The restaurants survive mainly on account of VOLUME.**
- **Experience is the most important factor for success. Management skills, courtesy and good manners, entrepreneurial ambition, willingness to work hard and under pressure, attention to detail and effective controls are vital.**

CONCLUSION:

The restaurant business is one of the few industries which presents an opportunity where you can start as a dishwasher and dream of owning your own restaurant – and actually realize that dream. But it takes dedication and a willingness to work long and hard to accomplish your dream. One needs to keep thinking of new ideas and innovate if one needs to survive.

The reasons for sickness in the restaurant business can be attributed to (in order of importance):

- **Mismanagement**
- **Insensitivity to external factors**
- **Inability to update the business**
- **Losing sight of the basics**

The steps that can be adopted for successful turnaround can be listed as follows:

- ❖ **Do a proper introspection and strategic analysis.**
- ❖ **Make a detailed survey of the prevailing business environment.**
- ❖ **Analyze the repercussions of the changes at the macro level on the business.**
- ❖ **Write down the lacunae, business sales marketing and operations plans.**
- ❖ **Meet key personnel and employees.**
- ❖ **Revise plans.**
- ❖ **Have discussions with vendors and customers.**
- ❖ **Contact the bank, tax authorities, and accountant.**
- ❖ **Keep only essential employees. Revamp.**
- ❖ **Cut unnecessary cost.**
- ❖ **Renovate and Innovate.**
- ❖ **Implement plans.**
- ❖ **Revise and reassess.**
- ❖ **Ongoing Innovation.**

Innovative Entrepreneurship is by far the most important tool in the hands of an entrepreneur to bring about successful turnaround in the hospitality business. Innovative ideas and ongoing innovation is what will facilitate entrepreneurs to bring about successful turnaround in ailing businesses. Hence referred to as the Key DNA for successful turnaround in the hospitality sector.

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