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eCommerce and the competitiveness of small enterprises: A study of the restaurant industry

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Abstract

eCommerce can provide competitive advantage both by enhancing efficiency and helping an enterprise differentiate itself in the market. These forms of advantage apply differently according to industry sector and the size of the enterprise. This paper reports a study of one such industry sector, that of small, owner-operated restaurants within the larger hospitality industry. Drawing on two theoretical approaches to business competition and trends in consumer behaviour, we present a framework for understanding the advantages eCommerce offers to small restaurants and the broader implications of applying technology to businesses that are often still run on traditional lines. Theories of competitive advantage and consumption trends suggest that the primary potential of eCommerce for these restaurants is as a support for distinctiveness and differentiation rather than efficiency gains. However, the study found that while the small restaurant owners tended to identify potential efficiency gains from eCommerce, they relied on traditional business practices to differentiate themselves in the market. These considerations are relevant for the future development of eCommerce applications and systems designed for small businesses supplying services.

1. Introduction

The extensive literature on eCommerce adoption provides a rich analysis of the implications of eCommerce for individual enterprises. A multitude of case studies explores the strategic applications of eCommerce from innovative marketing, to better supply chains to creative customer relationship management (DFAT, 1999). Each of the successful cases, often widely publicised, seems to reinforce the value of doing business online. The enterprises that make this transition enjoy a competitive advantage: in lower costs, wider exposure to potential customers, better service, faster response times. We assume that their counterparts, those businesses which do not take advantage of technological advances, are doomed to miss out and see their competitive position eroded.

At the enterprise level, accounts of ‘lagging’ adoption patterns usually assume that it is the obstacles (be they material or attitudinal) which delay or block the uses of technology. Otherwise, a business would be doing what is in its own interests – using these tools to maintain or improve
its competitive position in relation to other individual firms. The one able to adopt the technology earliest (first mover) and with the greatest strategic acumen would reap business benefits. However, there are different ways of gaining competitive advantage and the pursuit of efficiency through eCommerce may not be the best way for all competitors. In some industries and for some enterprises, eCommerce may provide no competitive advantage at all. We need to understand better how eCommerce affects the competitive position of individual companies within an industry sector as well as its effects on competition between sectors of an industry.

Our research focuses on one sector of a larger industry in order to study eCommerce and its relation to competition among SMEs in that sector and between the SME sector and other sectors of the industry, noting Porter’s admonition against using overly-broad industry definitions (Porter, 1990:34). We consider the implications of eCommerce for the competitive position of individual firms as well as its potentially longer-term implications for a whole sector of the industry in question.

The research reported in this paper is exploratory and focuses on small, highly-individual, owner-operated restaurants in Melbourne, Australia where restaurants of this type abound. The national industry incorporates approximately 140,000 food service outlets, including small restaurants, which provide 20 billion meals annually to the Australian public (Militiades, 2000). Melbourne’s restaurant industry consists of approximately 3730 restaurants (Liquor Licensing Victoria, 2000), most of which are small businesses. We have called this sector the small restaurant industry (SRI) to distinguish it from larger restaurants, restaurant chains and franchises and hotel restaurants. The small restaurants are typically family businesses employing 20 staff or fewer but as a sector it is an important provider of employment and a feature of the cultural life of the city. Our research was designed to identify eCommerce use and orientation among small restaurant owners and the factors affecting eCommerce use in this part of the industry.

As the research developed, it became clear that we needed to see the SRI in the context of the hospitality industry as a whole. This posed rather broader questions:

- What wider trends in the economy are shaping the hospitality industry and the SRI within it?
- How might eCommerce affect the ways that small restaurants compete against each other and against larger restaurants, hotels and franchises?
- How might eCommerce affect the viability of the SRI as a whole?

2. eCommerce applications in the restaurant industry

eCommerce applications are becoming increasingly popular in the hospitality & restaurant industry. They include integrated hotel reservation systems; ePOS-stock control systems; recipe-costing systems; catering information systems; conference and banquet systems; email; EDI (electronic data interchange); EFT (electronic funds transfer) (O’Connor, 1996)

Internet-based eCommerce for the industry began its development in the mid-1990s with more restaurant and hospitality organisations developing a web presence (Rubin, 2001). Since then, web sites have incorporated more content and visual appeal. More recently new functionality was added onto web sites especially in the US industry. This was mainly to stimulate eCommerce, enhance customer relationships with management, searching for information and communications (Rubin, 2001).

The industry shows a growing use of eCommerce and the internet. The National Restaurant Association (of the US) has estimated that about 4 out of 10 table service restaurants have their own web sites; approximately 10% of clients have viewed menus online and 44% of the rest have expressed an interest in doing so (Adams, 2001). Some restaurants have used the internet to sell signature merchandise, to promote their online menu and to buy supplies online (B2B eCommerce). Some restaurants are beginning to use recruitment sites on the Internet, such as Monster.com, to post job openings and connect with qualified workers and there appear to be growing opportunities for dealing with suppliers and in streamlining operations Adams (2001).
In addition to the trends that Adams has identified, Ross (1999) and Adler (2001) point out that one of the most popular eCommerce applications currently used by US restaurants and hotels is the Point of Sales (POS) system. Over the years, an increasing number of restaurant and hotel operators have turned to paging and table management systems to provide better customer service and enhance efficient reporting and the profitability of their dining rooms (Ross, 1999). POS systems are a new generation of table management systems that are able to capture real time status of table servicing. Combined with video production and expeditor displays, these systems provide a comprehensive picture of service cycles on real time basis. Such systems allow restaurant owner/managers to accurately measure and manage guest experience (Ross, 1999; Adler, 2001; Adams; 2001).

In addition to POS table management systems, real time reservation network sites such as OpenTable.com and Foodline.com allow customers to browse and make reservations online. Facilities exist for restaurant patrons to log onto the Web site and search for member restaurants by name, cuisine and space availability (Ross, 1999). In addition, accidental booking conflicts are minimized and the operator is able to track data, e.g. table turnover rates per night, which can assist planning with statistical data (Ross, 1999; Adler, 2001; Adams, 2001). Moreover POS software can be customized to accommodate the restaurant table layouts and seating schedules, which bolster accuracy and operational efficiency (Ross, 1999; Adler, 2001; Adams, 2001).

Hospitality Technology’s 2nd Annual Restaurant Technology study reported that only 20% of restaurants have data warehouses or data marts in use, but nearly 70% of respondents say they will have data warehouses and other components of enterprise business intelligence systems in place by 2002 (Pantages, 2000). A future eCommerce technology that is targeted for the restaurant and hospitality industry is the “Smart Kitchen”. Panitz (2000) argues that the “smart kitchen” of the future has the potential to revolutionize the industry by making production more efficient, streamlining labour-and-training demands, enhancing food safety and simplifying equipment repair. For example, refrigerators can keep track of stock items like milk and automatically re-order items through the Internet and a pre-programmed oven appears to be gaining popularity. It is even possible that interconnected kitchens will be able soon to communicate with outside sources. With this array of options, it is still not clear that the restaurant community will want or need such advanced technologies (Panitz, 2000).

3. Competitive forces and the SRI

How can we understand the competitive pressures facing small restaurants as they compete with each other and with other restaurants, fast food chains and hotels? How can a small restaurant compete effectively against other small restaurants and how can small restaurants as a group compete with the larger enterprise sector? What role does eCommerce play in this competition?

Before considering the competitive dynamics of the SRI, we describe the main characteristics of this industry sector. Our understanding of the industry context was enhanced by interviews with representatives of the industry associations and other public information sources. This augmented the responses from the restaurant owners and provided a broader picture of the SRI and restaurant industry as a whole.

It is generally easy to enter into Melbourne’s SRI and to set up a new business. Little formal knowledge and skill are needed to open a new restaurant, so almost anyone with sufficient funds can open a restaurant, although considerable skill and acumen are necessary to make the business successful. The sector enjoys the interest and active patronage from Melbourne’s population but it is highly competitive and such ventures often fail.

The industry has a generally high staff turnover, with almost half of the workforce employed on a casual or part-time basis. Approximately 41% of employees in the restaurant industry are waiters (ABS, 2000) and many waiters in Australia do not consider their job to be a long-term professional career. Very frequently they are students who are preparing for careers totally unrelated to the hospitality industry.
A hallmark of small restaurants is their labour-intensive nature, with long working hours. As most restaurants operate until late in the evening and on weekends, the impact on the social and family lives of owner/managers and their employees is significant and stressful. Moreover, the job of the restaurant owner/managers entails varied and onerous responsibilities. This includes: promoting the restaurant, keeping customers and staff happy, managing backend paperwork, taking care of overheads, managing cash flows, adhering to city council requirements, hiring and dismissing staff, ordering supplies, keeping up with changes and trends in the industry, complying with new laws and regulations (e.g. changes in tax and health legislation), balancing the daily cash till, paying wages and superannuation funds for staff, and juggling work demands with their personal/family life. With such demanding job commitments on the part of the owner/managers, the small restaurant trade in Melbourne involves hard work and long hours, with no guarantees of long-term survival.

Melbourne’s restaurant trade, especially in the SRI, is characterised by many traditional business practices and is very reliant on personal relationships and networks. Restaurants must have dependable access to high-quality fresh produce and restaurateurs are heavily reliant on trusted suppliers.

Restaurant customers seek more than simply well-prepared food. Customers demand friendly, efficient service and a pleasant restaurant environment. The ‘dining experience’ is holistic. It needs all of these elements to come together. Customers do not come to these restaurants simply to be fed. There are cheaper and quicker alternatives. They come for an experience that is pleasantly memorable and meets their needs for food and fellowship, including interaction with the restaurant staff. Successful restaurant owners develop good relationships with customers (many of whom are repeat customers) and with staff to ensure high quality food served in a pleasing environment. Often, the competitors (other small restaurants doing exactly the same things) are only a few doors down the street.

Michael Porter’s classic theory of competitive advantage (Porter, 1990) helps us analyse business competition in the SRI as indicated in the table below.

Table 1 Application of Porter’s five forces model to the SRI

<table>
<thead>
<tr>
<th>Porter’s competitive forces</th>
<th>Competition in the SRI</th>
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<tbody>
<tr>
<td>Threat of new entrants</td>
<td>High threat of new entrants because of low barriers to entry and popularity of small restaurants</td>
</tr>
<tr>
<td>Threat of substitute products</td>
<td>High threat from other prepared food outlets (including transnational franchises), take-home packaged foods and home-prepared food</td>
</tr>
<tr>
<td>Bargaining power of suppliers</td>
<td>Medium level of power. Many sources of supply exist but a restaurant needs reliable quality and a good understanding of its needs</td>
</tr>
<tr>
<td>Bargaining power of buyers</td>
<td>Buyers’ bargaining power is relatively high because the demand for restaurant meals is elastic. It is mitigated by a variety of factors including buyers’ tendency to search locally rather than go further afield; by the relatively large number of diners and their tendency not to be too influenced by pricing.</td>
</tr>
<tr>
<td>Rivalry among existing competitors</td>
<td>This is intense both within the SRI and the restaurant industry more broadly.</td>
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</table>

Thus, while small restaurants are not typically highly profitable, many small restaurant owners have other motivations besides financial return and will stay with their business as long as they can sustain a reasonable living.

Porter also provides a framework for understanding how individual enterprises position themselves within an industry sector. An enterprise can compete either by lowering costs or by differentiating itself from competitors with either a broad or narrow competitive scope (Porter, 1990: 39).
Owner-operated small restaurants necessarily have a narrow, localised scope and cannot, given the low margins on which they operate, directly compete on price. Only a focused differentiation strategy will work. The differentiation can be based on quality (itself a multi-dimensional characteristic) or innovation (novelty, uniqueness). In his later work that addresses the effects of the internet on competition, Porter (2001) distinguishes two ways of achieving sustainable competitive advantage. One is by enhancing operational effectiveness; the other is by strategic positioning which delivers a unique value to customers (Porter, 2001: 70).

How can the eCommerce applications described above improve the competitiveness of a small restaurant? A small restaurant may improve its business processes and thus its operational efficiency by using many of these applications to increase its productivity, reduce waste, manage procurement more smoothly and incorporate more flexibility into the running of business. Porter (2001: 70) claims that while the internet is a powerful tool for increasing operational effectiveness, this does not confer competitive advantage since other enterprises can readily reap the same benefits. In any case, there is limited competition based on price in the small restaurant sector and improvements in operational efficiency, through eCommerce or internet commerce are not likely to be an effective strategy.

The sectors of the restaurant industry where major technology applications are found do not include the SRI but the larger enterprises where the size and scope of the businesses are greater. The paradigm case of these applications is McDonald’s hamburger restaurants where technology is integral to the business success of this multinational chain which is so well known that its name has entered the language to describe the use of factory production in food retailing. George Ritzer (1993) has dubbed this approach ‘McDonaldization’. McDonald’s has become a transnational food empire with efficient supply chains, prescribed production techniques, standardised products, and product and brand control worldwide. This depends heavily on sophisticated eCommerce use.

Strategic positioning. Porter argues, has become a more important source of competitive advantage than operational efficiency. This entails competing in a distinctive way (Porter, 2001: 72) and offering a unique value that is not easily matched by competitors. Consistent with this idea is a trend identified by Joseph Pine and John Gilmore (1998; 1999) who coined the term ‘the experience economy’. They argue that increasingly the consumer’s experience is the basis of competition and experience has become commoditized, often in conjunction with traditional goods and services. The experience is created when the business engages the customer in ‘a personal and memorable way’ (Pine, 1998). For example, theme restaurants not only provide food and serve it to customers, but provide an experience to draw customers as well. Singing waiters and other inventive activities are the basis of competitive advantage. The food itself may provide no particular attraction. While the commoditization of experience is not new, it is more commonly the basis for value creation than before.

The small restaurant may not match the showmanship of the Hard Rock Cafes, but its success is heavily dependent on the dining experience it provides to the customers. That experience includes the presentation of the food, the style of the service, the décor, the ambience and the management of the ‘event’ from the time the customers enter the restaurant until they are bid goodbye after the bill is paid. It also includes the relationship developed or implied between the diner and the restaurant staff and the manager. The dining experience is an increasingly important element of competitive advantage and a dimension on which the small restaurant can compete with other eating establishments both large and small.

Small and even medium-sized restaurants cannot compete in scale and operational efficiency with enterprises like the McDonald’s chain. But these restaurants compete in a different industry sector. Their competitive strengths are the antithesis of McDonaldization. It is in their very unpredictability and uniqueness that their competitive advantage lies. There is little to be gained by playing catch-up with the larger restaurants or franchises. The rise of the Experience Economy is a boon for small restaurants.

Our purpose in this study is to understand how small restaurant owners engage with eCommerce and position themselves in this competitive industry. We wanted to understand how they approached it, if at all, as a tool of operational efficiency and as a means to assist in strategic differentiation.
4. Study Method

We decided to conduct an exploratory study of the SRI because the more general literature about SMEs does not provide the kind of detailed information that would help us understand the specific issues for that industry. Through face to face interviews we were able to adapt the questions as necessary, clarify their responses and follow up on issues raised by the respondents (see Sekaran, 2000). This interaction was important because the participants did not always have a clear understanding of what eCommerce was and how it might apply to the restaurant industry. Furthermore, face to face interviews allow the researcher to explore issues raised by the respondents, which generally is not possible through questionnaires or more limited telephone interviews.

The sample for the study was chosen randomly from a list of restaurants in the Yellow Pages telephone directory, the areas included: Melbourne City and 9 adjacent Eastern suburbs within a radius of approximately 10km from the central city. As the focus of this research is mainly on small owner-operated restaurants, we did not include any restaurant chains, franchises or hotels in our sample.

A letter outlining the purpose of the research and requesting an interview was sent to the first 40 restaurant owner/managers on the list who were then contacted by telephone. Because the first mail-out did not yield the target of 20 participants, primarily due to lack of time and interest by restaurant owners, letters were sent out to the next 25 restaurants on the list. Out of the 65 contacted by letter, 20 participated in the research (a 31% acceptance rate). Two other owners were interviewed who were referred by other participants. A total of 22 owner-managers were interviewed. The interviews were conducted at the restaurants’ premises and lasted about 25-90 minutes each. A semi-structured questionnaire was used for the interviews.

The restaurants provided a wide variety of cuisines ranging from Asian to Australian, Middle Eastern to European cuisine. This was not deliberate but a coincidence, partly because Melbourne’s restaurant industry includes owners and chefs of multi-cultural backgrounds.

5. eCommerce use and orientations in the SRI

The restaurants varied in their levels of eCommerce use and three broad levels of adoption were used to classify the 22 restaurants. Table 2 indicates a low level of eCommerce use among them. Although all had credit card facilities, 4 used no other applications. Even among the third group, only one restaurant could be considered has having really advanced eCommerce.

<table>
<thead>
<tr>
<th>Group</th>
<th>Use levels</th>
<th>Number</th>
</tr>
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<tbody>
<tr>
<td>Non-users</td>
<td>Electronic payments only (credit card plus EFTPOS in 3 cases)</td>
<td>7</td>
</tr>
<tr>
<td>Basic users</td>
<td>Internet banking, advertising over the internet via websites</td>
<td>7</td>
</tr>
<tr>
<td>Medium to advanced users</td>
<td>More sophisticated applications including barcodes, POS systems, online booking, email, online mailing lists and online ordering. Most used 3-4 applications.</td>
<td>8</td>
</tr>
</tbody>
</table>

We identified a number of issues that shape the approaches to eCommerce in small restaurants. These issues influenced the ways that restaurant owners approached eCommerce. In some cases they were issues affecting SMEs in general and in some cases they were characteristic of the SRI. One set of factors reflects decisions about eCommerce in terms of operational efficiency. A second set of factors relates to the strategic positioning of a restaurant in the SRI and its use of eCommerce. This set of factors relates to the ability of a restaurant to compete on the basis of the intangible and relational aspects of the provision of a dining experience.
**Issues related to operational efficiency**

In response to questions about their reasons for using or considering eCommerce, the interviewees identified issues that were related to operational efficiency. These responses included both positive responses (identifying the drivers) and negative ones (identifying the barriers).

1. **Attracting a larger clientele via web-based publicity**

   The ability to attract more customers was a major issue, mentioned by the majority of the 15 owners who had implemented some level of eCommerce. This motivation was particularly strong for those in the basic user group where 6 of the 7 had a website for that purpose. They saw the internet as a more efficient way to advertise though none of them referred to any measure of this. These owners believed that a website offered potential customers more information about their restaurants. This issue was less frequently mentioned by the 8 more advanced users, but all had websites. A majority of the respondents raised issues of market access and advertising volume, but not all restaurant owners were so concerned to publicise their restaurants. For some non-users, their loyal clientele and word of mouth were sufficient to sustain their business activity. They were not interested in expanding their business and thus did not see value in having even an inexpensive business website.

2. **Leveraging information technology**

   Familiarity with and skills in information technology proved a significant factor in eCommerce adoption. All of the 8 participants medium-to-advanced users of eCommerce described themselves to be knowledgeable about IT which was an impetus to apply these skills and knowledge in their business. Most also knew someone (usually a family member) who had the knowledge and skills to help advise them. They had been able to make an informed decision about eCommerce in their business and reported that without these skills and knowledge, they would have been hesitant to adopt it. Conversely, the lack of IT skills was an important factor for the non-users since six of the seven described themselves as not computer literate and had no idea how eCommerce technology could benefit their business or if it would suit their business needs. These IT skills can be seen as a competitive advantage by making it easier and less expensive to go online. Lack of the skills made eCommerce adoption more expensive and less likely to pay off.

3. **Cost-savings and productivity improvements**

   A major motivating factor for the adoption of eCommerce by the medium to advanced users was the anticipated benefits of cost savings and productivity improvements. In contrast to the other groups, they appeared to be better-informed about eCommerce and its associated benefits. Their greater awareness of the advantages had prompted them to use more sophisticated applications in an integrated way to reduce costs. Several argued that a website provided a more cost-effective means of advertising with the added benefits of including more information than the traditional print media (e.g., Yellow Pages telephone directory). Other benefits were reported in the ease and efficiency of on-line ordering and in control and accounting applications (e.g., tax reporting). But these were confined to the minority who were medium to advanced users. Those in the other groups relied on traditional techniques to manage their businesses.

   Cost and productivity were also key factors for the non-users and basic users of eCommerce. Most restaurants already have large overheads and the cost of implementing eCommerce was a serious impediment, especially for the non-users. The costs included the technology infrastructure, the training and the ongoing costs of updating software versions. Time was also an issue for many non-users who believed that they might not have the time to learn new technology and that it might pose problems for staff.

4. **Lack of business advantage**

   A number of respondents among the non-adopters and low level adopters explained their reluctance to adopt eCommerce in general terms. They did not debate its potential benefits in some cases but did not see them as applying to their own restaurants. The following quote is a good example of this approach.

   Apart from our web site and Internet banking, which we are currently using, I really don’t think we need any other eCommerce technology for our business. I don’t see the point in
This thinking highlights the scale of small restaurants and the difficulties they have in getting a return on eCommerce investment, in contrast to larger restaurants and franchises. It was easy to understand that non-users could see ‘no need for eCommerce’. Similarly, most of the basic users were fairly non-committal about its benefits and had not been driven by any strategic goals. They were generally satisfied with their level of adoption and found no need to include new eCommerce applications into their business operations. Even most of the medium-to-advanced eCommerce users saw little need to extend their eCommerce activities, although all were satisfied with the applications they used.

These indicate fairly ad hoc eCommerce ventures. It also indicates an orientation to both the benefits and costs in efficiency and cost terms.

**Strategic positioning and differentiation**

There was some evidence of a growing awareness of advantages to be gained in strategic positioning from eCommerce. The following quote shows an owner moving in that direction:

> The web site can offer more features than any other form of print media. My web site can include significantly more information about the restaurant and its food, such as by providing an online menu, notification of special events and a special section for recipes. In future, I have the option of offering online booking and a virtual tour of the restaurant through my Web site. I’m also thinking of setting up an online restaurant member’s club. In fact, very soon I intend to use the Internet for keeping in touch with my customers through an online mailing list.

However, most of the owners did not see the point of leading in this way although they anticipated a (mainly future) need to follow.

1. Keeping up with shifts in industry practice.

About half of the non-users indicated that they would implement eCommerce if a large proportion of restaurants in the industry had also done so, but they did not believe that this was the case yet. They were interested in eCommerce if it helped them to keep up with shifts in industry practice especially to maintain market share.

All seven basic users reported that they had adopted eCommerce because they wanted to keep up with practices in the industry and saw eCommerce as consistent with a shift toward an Information Age. Six out of the seven said that by using eCommerce they were satisfying the perceived expectations of customers and keeping up with competitors in the industry. This group of participants felt that by using eCommerce they were “keeping up with the times”. There was no sense that it would help them differentiate their restaurants, only that it would require conformity.

2. Disruption of relationships

The majority of respondents held an uncommitted attitude to eCommerce as a tool for differentiation in a competitive industry. However, they were sensitive to what they saw as its negative potential. Their primary concern was its impact on their current business practices and relationships. This was the major barrier cited by basic users but not confined to this group. Their fear is that eCommerce technology will compromise the personal, face-to-face relationships on which most restaurant owner/managers rely. These are traditional business links and are integral to this section of the restaurant business. They include trust-based relationships between business trading partners; they were hesitant to adopt additional eCommerce applications for the fear that it would affect these relationships. Similarly, they are apprehensive that the relationships with their staff and their customers (particularly the ‘regulars’) could suffer if they pursue eCommerce too vigorously.

None of the respondents referred to the capability of eCommerce to enhance the dining experience directly. They were more attuned to its potential to disrupt it. While these restaurants’ competitive advantage lies in differentiation and strategic positioning in a sector of the industry that emphasises unique experiences, many are not aware of any contribution that eCommerce might make to that. They think primarily in terms of efficiency which will be of moderate value at best to their businesses.
6. Discussion

Although this study is exploratory, the findings are consistent with what is known about SMEs in general and with information provided by industry representatives. The level of eCommerce knowledge was relatively low and the restaurant owners were wary of it. They are well aware of the dynamics of the SRI and until eCommerce becomes the industry standard, they will not have strong reasons for using it. Furthermore, several of the restaurant owners articulated a concern about the competitive appropriateness of existing eCommerce applications. Not only were they unconvinced that these business tools would help them, but they might interpose an unwelcome element in their dealings with customers, often quite personally based. To the extent that they are offering experience rather than just food, the efficiency and control advantages of automatic online booking, for example, could be less significant than the potential of that system to alienate the customer from them. In this sector, the diner comes not just for food but arguably for the interaction with the restaurant staff which includes being made to feel welcome and valued. There are cheaper and quicker means of appeasing one’s hunger.

The relationship-dependent nature of the SRI is also evident in the ways that these restaurant owners deal with their staff and their suppliers. These are highly personalised relationships relying on trust, favours and mutual obligation. These relationships help the restaurant owner manage the enterprise and provide the experience (and the food) that the diners want. If these relationships are disrupted, the restaurant’s competitiveness is threatened. It is no wonder that the owners are wary of technology.

We do not discount the efficiency and productivity gains that eCommerce may deliver to small restaurants. Clearly there are benefits if these applications are appropriately designed and implemented. Increasingly, customers will expect efficient service and affordable prices. They may be unwilling to pay a significant amount more for a highly personalised dining experience. The development of eCommerce techniques appropriate to this sector, however, will involve the intangible elements of the relationships and experience. These are not reducible to calculation of the McDonaldized world.

The competitive landscape of the SRI turns out to be more complex than we first anticipated. A small restaurant competes both with others in the SRI and with chains, hotels and other larger restaurants. It must compete fiercely and many do not survive.

The issues appear to be different for competition within the SRI and between the SRI and the larger restaurant industry. The table below indicates the various competitive implications of eCommerce adoption by small restaurants in terms of McDonaldization and the growth of the Experience Economy.
Table 3  eCommerce and competitive issues for small restaurants

<table>
<thead>
<tr>
<th></th>
<th>Operational efficiencies</th>
<th>Strategic positioning and differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competition among small restaurants</td>
<td>Gains to be had from inexpensive additional communication channels with customers and suppliers; easy and inexpensive web page development and maintenance.</td>
<td>Limited scope if the cost and skill demands of the advanced techniques that would be required are high. More information could be provided online, but traditional, personal relationships are much more important.</td>
</tr>
<tr>
<td>Competition between small restaurants and large restaurants, hotels, chains and franchises</td>
<td>Unlikely to match the larger enterprises in their ability to benefit from these techniques. The key will be ease of use and low cost; no superfluous functionality.</td>
<td>Collaboration among small restaurants could help promote their industry online and foster customer loyalty to the SRI as a whole. Costs of effective applications will be beyond the budget of a small restaurant.</td>
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</table>

The table above suggests that the competitive issues are different within the SRI sub-sector and between industry sub-sectors. Online applications oriented to improving the efficiency of business processes will be of limited use to individual restaurants and are likely to benefit larger restaurants much more than small ones. Initiatives that focus on enhancing the diners' experience and building relationships and loyalties can enhance the competitive position of the SRI relative to larger restaurants and chains, but are unlikely to be effective unless pursued on a collective basis with members of that sector cooperating.

7. Conclusions and Directions for Further Research

We began this paper by posing some questions about the broader implications of eCommerce for competitiveness within an industry sector and between sectors of a broader industry. We were seeking understanding through an exploratory study of the small restaurant industry of the implications of eCommerce for the ways that small restaurants compete against each other and against larger restaurants, hotels and franchises. We sought to identify the wider trends in the economy that shape the hospitality industry and the SRI within it and the possible effects that eCommerce might have on the viability of the SRI as a whole.

Our research suggests that to stay competitive small restaurants need access to inexpensive, easy to use eCommerce tools to facilitate business communication and on-line marketing but owners of small restaurants are unlikely to be eager or early adopters of eCommerce. It is unclear that anything beyond fairly basic eCommerce use would give a small restaurant much of an advantage as the industry sector currently operates. The costs, in terms of both time and money, are unlikely to be commensurate with potential gains given that relationships with both suppliers and customers are heavily reliant and personal and quite traditionally-managed relationships. Improved business efficiency would be an asset for these restaurants, but only if the eCommerce applications they used were inexpensive and easy to use, both for the owners and the casual and temporary staff they employ.

The competitive advantage of this sector of the Melbourne restaurant industry lies in its ability to provide a valued dining experience, part of which relies on personal interactions, loyalties and a sense of local connection. We should not dismiss the concerns voiced by the restaurant owners that adopting eCommerce might disrupt these relationships. Only applications that recognise the
small restaurant’s location in the so-called Experience Economy will support their competitive position. Those developments, however, are probably best undertaken on a collective basis, linking a substantial number of small restaurants together so they can share costs and market their services effectively.

The small end of the restaurant industry is not unique. Other industries follow the same profile with a sub-sector of small enterprises that supply both goods and/or services plus experiences and relationships. The hairdressing industry is one such example. In addition to issues of eCommerce awareness, knowledge, use and effects on these SMEs, is the issue of the implications of the spread of eCommerce for the relationships between industry sectors. Investigations of these cases across countries and across industries will provide a better understanding of eCommerce adoption and the implications of its spread.

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Liquor Licensing Victoria (2000), personal communication


