

Impact of Service Charges on the Restaurant Businesses: Bangladesh Perspective

Shafia Tasnim, Hasnayan Ahmed, and Jubair Hossain Hamim

Institute of Business Administration, Jahangirnagar University

Abstract

Restaurant businesses are being very famous in today's Bangladesh. They noticeably contribute to the economy of a region. Our study aimed to work on service charges, a core policy of some restaurants. Unofficially, we noticed that some restaurant-goers were dissatisfied with the policy of service charges, especially with the mandatory ones. Observing this incident, we were convinced to conduct an empirical study on the effect of service charges in restaurant businesses. We developed two questions to investigate. Our primary concern was about customers' dissatisfaction and the later question was to know whether or not the restaurants would get more customers by canceling service charges. We took both qualitative and quantitative approaches and decided to collect primary data along with some secondary data. After collecting data, we analyzed the data and observed the results. For collecting data, we have made questionnaires to conduct surveys. We believe our study will be practically effective for many restaurants.

Keywords: Service charges, qualitative and quantitative approaches, customers' dissatisfaction, empirical study, research question

Introducing the Topic

Background and Context

In today's Bangladesh, the number of restaurant-goers is increasing day by day. If people want to celebrate any success or to arrange any party, they prefer restaurants to home. Observing this new convention and following the trend, the restaurant businesses are burgeoning all over the country. Many restaurants apply service charges in their bills. Sometimes, it becomes a burden for commoners to pay those charges. Some people around us, we've noticed, are dissatisfied with restaurants' service charges. Often, they pay those charges reluctantly. Thus, they bring home dissatisfaction with those restaurants. In the future, they feel disinclined to go to those restaurants. Consequently, the restaurants that set service charges, ultimately incur losses.

Service charges are fees that are paid along with the primarily purchased products. Including restaurants, many enterprises collect service charges. Those who don't support service charges, show grounds that customers are not supposed to pay service charges, needlessly, while they are already paying for the food. However, unlike tips that are not considered mandatory, the rationale behind applying service charges mandatorily is that service charges go to the companies directly. Another argument behind collecting these charges is they contribute to the costs of administration and processing of the activities of the organization.

Problem Statement

Research Problem

Usually, high-end restaurants add service charges to their bills. Nevertheless, medium-end restaurants are also applying those charges nowadays. But, according to some customers, restaurants are there to serve foods rather than to apply mandatory extra payments called “service charges”. According to them, this operation unnecessarily increases their bills from 10% to 15%. Accordingly, high chances are there that those customers may be dissatisfied with those restaurants. So, they hardly may want to go there again.

Context

We searched on the internet to find out service charges related to research papers written in the context of Bangladesh. We encountered that there is nearly no research works on our specific sector. Therefore, we believe that our research was empirical research work. Also, our research was theoretical.

Aims & Objectives

Although we have noticed that some customers are dissatisfied with the service charge policies of restaurants, we don't have concrete secondary data or research works to decide whether or not the majority of the customers are having this dissatisfaction with the restaurants for service charges. Therefore, we want to conduct theoretical research on this case. Again, we researched that even if the restaurants cancel their service charges, whether the number of customers would increase or not. If increases, then restaurants can make more profit.

Research Questions

After designing the problem statement, we tried to hit the core of the problem. And eventually, we developed two questions. Our research paper aims to find answers to these two precise questions.

Question 1: Are customers dissatisfied with the restaurants that apply service charges?

Question 2: Even if the restaurants decrease or cancel service charges, then, will the number of customers increase?

Relevance and Importance of the Research

The research is highly relevant in a large industry's supply chain management. Currently, restaurant businesses are eminently effective in the economy of the local and of the national area. Our study is striking a core policy of a large number of restaurants of the whole industry. Thus, if we find out that there are ways, maintaining which, those particular restaurants can ensure earning more profit, and the customers of those restaurants also can have satisfaction, then, we believe that our study will be able to contribute a noteworthy amount of value to society and to the supply chain industry of restaurants. Moreover, this study will add insight into a new dimension. Hence, we are confident that our research work is worthy enough.

Literature Review

In the literature review section, our target for analyzing previous research papers was to understand the existing knowledge or theory related to our specific topic. At the very beginning, we tried to find papers that are analogous to our exact case, but we didn't find such particularly similar work. Afterward, our next target was to select the papers that are, at least, related to our topic.

Our research questions are concerned with customers' satisfaction and with restaurant businesses. So, we tried to have a deep dive inside these fields, although, noticed that there are not many research works on service charges in restaurants, specifically in the context of Bangladesh. However, we found some recently conducted studies that are connected to our specific subject. For example, customer satisfaction and customer loyalty are fundamentally related to our research questions and are unavoidable factors in restaurant businesses. And, on those sectors, we found some research works, especially on the viewpoint of Bangladesh. Thus, we believe that we may fill in some gaps in the academic works on the supply chain of restaurant industries.

Our research paper's first question is about customer satisfaction. So, primarily, we tried to know some scholarly opinions about customer satisfaction and its effects. According to a recent study, positive customer relationship is crucial in restaurant businesses that are, at this time, highly competitive because new restaurants are mushrooming all over the country. Effective strategical policies for good customer relationships play valuable roles in customer satisfaction. It's a basic tendency of a company to keep their customers satisfied. To boost

market share and productivity, customer satisfaction is immensely necessary. (Hassan et al., 2015).

Again, Leninkumar (2017) says that customer loyalty, which plays a significant role in the supply chain of a restaurant, sometimes is directly proportionate to customer satisfaction. Moreover, customer satisfaction is a prerequisite of customer trust with the restaurants. Customer satisfaction has also a direct effect on financial standing and on public perception. This satisfaction can be secured by confirming not only with the best products or services but also by providing the best experiences. Confirming the loyalty of customers is not supposed to be a short-term strategy for any business. (Basari & Shamsudin, 2020). Thus, we can definitely say that customer satisfaction has a pivotal role in restaurant businesses or any venture. And, to gain that satisfaction, restaurateurs can take effective strategical policies, for instance, canceling or decreasing service charges.

Our second research question is to investigate the probability of change of the mindset of customers after the cancellation of the service charges of the restaurants. But prior to that, we needed some background on the mindset or mood of customers. Before going to a restaurant, customers need to fix their mindsets; they decide whether or not to go to any restaurant they had visited in the past (El-Adly and Eid, 2016).

Now comes the question of customers' choosing a restaurant. Customers choose a restaurant not only on the basis of food but also on services they were offered previously. Again, the exact factors that definitely satisfy a customer, are really hard to identify (Uddin, 2019). But,

if we can show that service charges are a vital factor in the mindset of customers, restaurateurs then may take initiatives.

Our second question is about to be investigated in a quantitative approach. The target is to draw a causal effect line between “increasing the number of customers” and “canceling the service charges”. Related to this case, we found some hints in a work (Amin and Tarun, 2019). According to them, restaurateurs can engage themselves with the customers using more creativity and focusing on experiential marketing practices. Customers love to have vivid, creative, and memorable experiences. In order to confirm customers’ inner feelings and trigger their minds to go to those restaurants again, experiences directly contribute. And here comes diversified experiential marketing practices. Canceling or decreasing the service charges can be such a “diversified” experiential marketing strategy.

By conducting this literature review, we gathered core information related to our questions. Moreover, we tried to connect some dots related to our topic. These pieces of information will have influential effects on our research work. Also, we learned how the researchers took their approaches, and now, we have a clear idea of how to take our approach for the questions we set. Since there have not been many major research works on the exact topic of ours which is related to a vital supply chain industry, restaurant industry, we believe, our research work will influentially contribute to the whole restaurant supply chain industry. Nevertheless, we tried to find if tipping and service charges are linked or not; we found that tipping and service charges are not the same. However, in some restaurants, there are tipping policies (Lynn & Brewster, 2018). Still, in this study, we have no concern with tipping in

restaurants, but rather, our research topic is about service charges that are mandatorily imposed in the bills of a restaurant.

Research Design

We developed two research questions to investigate. Then we decided to take a qualitative approach for the first question, and a quantitative approach for the second question.

It's inductive information to know whether or not the customers are dissatisfied with the service charge policies. So, we will take a qualitative approach to answer this question. Conversely, to know whether or not the number of customers will increase even if the service charges are canceled, we need to draw a causal relation. And for this, we planned to devise a quantitative research design. The type of quantitative research will be experimental. Because correlation doesn't imply causation, we won't go for correlational design.

Theoretical Framework

Our first research question was qualitative and the second one was quantitative. To get the answer of the second question, we had to develop hypotheses. Thus, we finally developed 3 hypotheses including a null hypothesis.

Null Hypothesis: If the restaurants decrease or cancel the service charges, the number of customers will not increase.

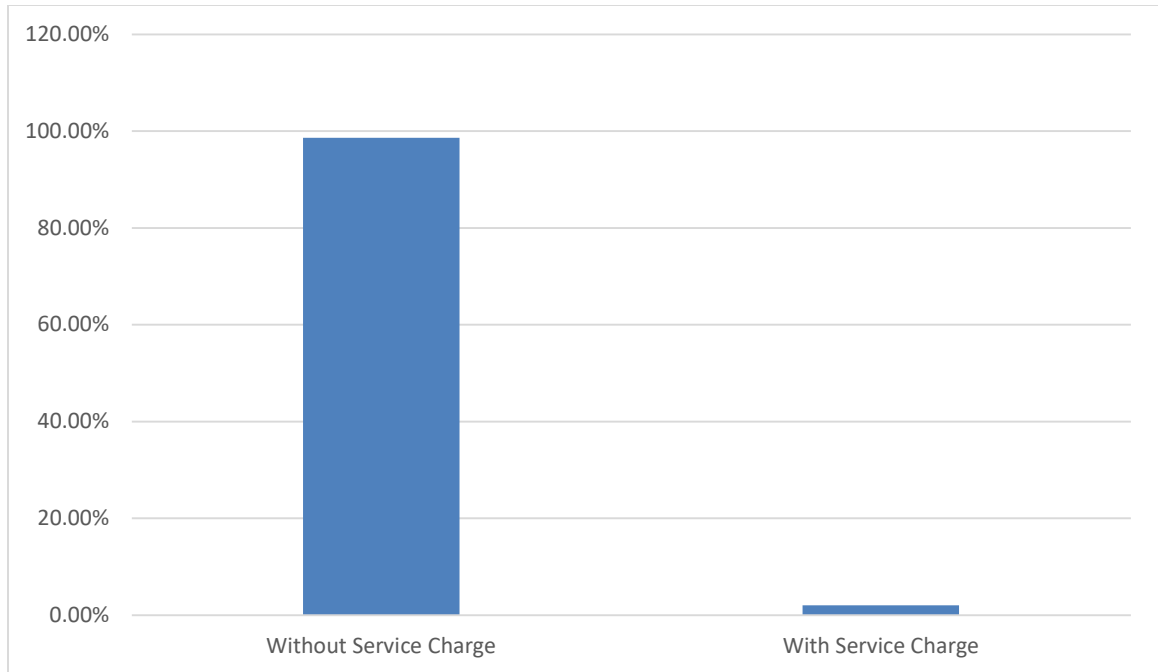
Hypothesis 1: If the restaurants decrease or cancel the service charges then they can increase their number of customers and range of customers.

Hypothesis 2: If the restaurants decrease or cancel the service charges then that action will create a chance to increase the profit.

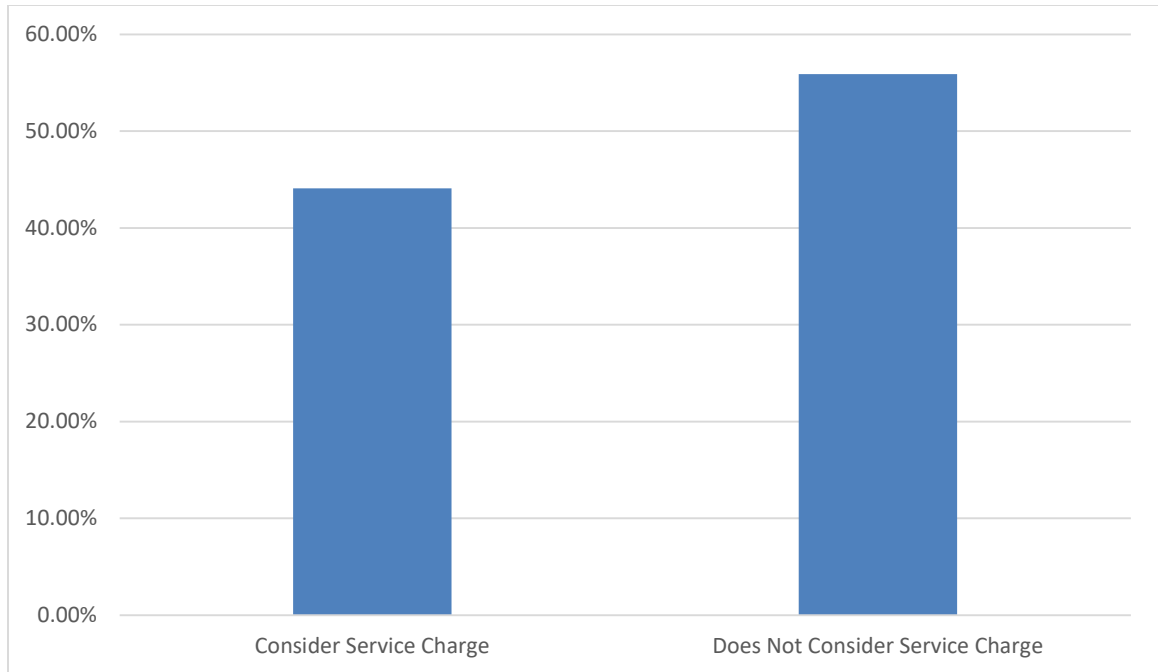
Methodology

We conducted a survey among people who frequently visit restaurants. For the survey, we made up a questionnaire and shared this via google form among our friends and families. Our target was to collect data as maximum as possible. Finally, we received responses from them and analyzed the data.

Preferred Restaurant	Percent	Number
Restaurants without Service Charges	98.6%	143
Restaurants with Service Charges	1.4%	2



Consider service charge	44.1%	64
Doesn't consider service charge	55.9%	81



Wants to go to restaurants without service charge because the total bill is comparatively lower	91.7%	133
Wants to go to restaurants with service charge because the price of food is lower	8.3%	12

Age:

Less than 20	22.8%
20-25	73.1%
26-30	2.1%
More than 35	2.2%

Occupation:

Student	95.2%
Service holder	4.2%

Financial condition:

Upper class	0.7%
Higher middle class	7.6%
Middle class	53.8%
Lower middle class	24.8%
Lower class	13.1%

Monthly restaurant visits:

Not even one time	29%
1-3 times	49.7%
3-5 times	11%
5-7 times	4.8%
More than 7 times	5.5%

Results

Hypothesis testing:

H₀: If the restaurants decrease or cancel the service charges, the number of customers will not increase.

Analyzing the data that we collected from the survey, it is evident that 44.1 percent people consider “service charges” before selecting restaurants. Therefore, we can reject this null hypothesis. And, it is definite that if the restaurants decrease or cancel service charges, the number of customers will increase.

H₁: If the restaurants decrease or cancel the service charges then they can increase their number of customers and range of customers.

We collected data from 145 people. 138 of them are students and 78 of them are from middle class background. Most of them are more inclined to go to such restaurants which don't charge for their services. As it is not easy for students who does not have any fixed income source to pay extra service charges. So, we can clearly see from the data that if restaurants cancel service charges, then, at least students and people from this kind of financial background will be more inclined to go to those restaurants.

Therefore, this hypothesis is accepted.

H₂: If the restaurants decrease or cancel the service charge then the action will create a chance to increase profit.

In our survey, we can see that people are more inclined to go to the restaurants without service charges. 91.7% people want to go to a restaurant without service charge even if the price of food is higher than a restaurant with service charge though the total bill is comparatively lower.

44.1% people from our survey consider service charge before selecting a restaurant. So, there is a very definite chance of increasing customer if restaurants cancel the service charge. As increasing of the customers is simultaneous with the rate of profit there is a chance that profit will increase also. So, we can also accept this hypothesis.

Ultimately, we can conclude that, if the restaurants decrease or cancel the service charges that they apply, more people will be motivated to go to restaurants that they wouldn't consider to visit. Thus, those restaurants will get more customers and eventually make more profit.

Implications and contributions to knowledge

Our proposed research has the chance to focus on a strategy that is not on that much attention. But we decided to work on it for its importance related to a mushrooming business all over the country.

Practical Implications

The restaurateurs will get new insight into the mindset of the customers. And thus, they can turn the customers into loyal customers. Ultimately, they can increase their revenue.

Theoretical Implications

Further research works may be conducted based on our research work. Thus, the supply chain of the restaurant industry may see a new dimension.

Author Note

Shafia Tasnim nt424648@gmail.com

Hasnayan Ahmed hasnayan.ahmed2002@gmail.com

Jubair Hossain Hamim jubair.hossain2018@gmail.com

We have no conflict of interest to disclose.

We are also available for correspondence concerning this article.

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