

RESTAURANT BUSINESS – PROSPECTS AND CHALLENGES WITH REFERENCE TO KOTTAYAM TOWN

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Abstract - This paper analyses the prospects and challenges that the restaurant industry faced in Kottayam after the implement of two significant government policies, i.e., implementation of Goods and Service Tax (GST) system and demonetisation. India is the second-largest population in the world, and this makes India one of the largest markets for sale of any products or services. Food is one of the largest retail consumption categories in India accounting for approximately 31% of country's consumption basket and Food Market expected to cross USD 540 Billion by 2020. This paper describes the rise of the restaurant business in India for the past few years. It analyses the leading causes for the growth of this business in particular, where most of the other small and medium scale industries have harmed them after the implementation of GST and demonetization.

Key Words: GST, Demonetisation, restaurant business

1. INTRODUCTION

Demonetization and GST were two of the most crucial implementations by the government during their tenure from 2014-19 in the Indian economy.

Demonetization as a means of combating the black money in the economy was a tactical strike that had no prior warning regarding its implementation. Its implementation had a few flaws during the time it was implemented and did have a significant impact on the small and micro businesses in the country. The private individuals were required to provide a proper and detailed report regarding their source of income to convert the demonetized currency of Rs. 500 and Rs. 1000 into the newly introduced money of Rs. 500 and Rs. 2000. Though it was a tactical and practical move by the government, the Rs. 500 and Rs. Two thousand currencies lacked in meeting the demand of all the individuals for their acquisitions, which ultimately resulted in a standstill for carrying out the day-to-day expenses on a small-scale level. It also had positive and negative impacts on restaurants and hotel businesses, as well.

Goods and Service Tax (GST) is an effective taxation system that allows to eliminate various segregations of indirect taxes and convert it into a simple form of tax. It helps in the effective management of taxation related activities. GST mainly has three separations, namely SGST (State GST), CGST (Central GST), IGST (Integrated GST). The tax percentage of GST depends upon the income bracket of a private individual. All the restaurants and hotel businesses are required to have a registered GST number to carry out their business.

With the implementation of these government policies, there were drastic effects on some of the small-scale industries around the country. The economic policies resulted in a lot of crisis and caused to have extreme effects on a large composition of small-scale businesses.

The restaurant business, on the other hand, has had a different result even with the implementation of such policies. From 2016, even with the demonetization that took place, Kottayam alone has experienced a rise in the establishment of new restaurant firms. These are basically in 2 forms which are: -

- i) Expansion in existing restaurant ventures
- ii) Establishment of new restaurants

The banning of the Rs.500 and Rs.1000 currency notes (demonetization) resulted in a sort of economic instability that caused many of the small-scale businesses to incur losses or even shut down.

With the implementation of GST, the tax norms were made tighter, and this included a more simplified form of indirect tax. But to execute and administer this tax system resulted very problematic and thus had drastic effects on small scale industrial businesses.

2. REVIEW OF LITERATURE

Cutler, in his work, "Time, Tastes and Technology: The Economic Evolution of Eating Out" (1994), interpreted that the increasing American style of dining out has rated a

culture of fast food and snacking giving more importance to the convenience and eating out behavior.

In his work "The Taste of Tomorrow: Globalization is Coming Home to Dinner" Brian, (2000), has indicated that the food of tomorrow will include international dishes and fusion cuisines, blending many national cuisines. Kitchens will disappear from many homes in the future, and the concept of purchasing food, with no wish to cook food at all, will come.

According to NRAI's 2013 India Food services report, the foodservice industry in India is worth an estimated Rs. 247,680 cr (\$48 billion) and projected to grow to Rs. 408,040 cr (\$78 billion) by 2018.

According to an article published in the website economictimes.indiatimes.com (2017), the Food industry in India has been borrowing in recent times. The restaurant market was valued at Rs. 20,400cr in 2016 and expected to grow to Rs. 51,000cr by 2021 as per the national restaurant association on India. As mentioned by Dr. Yongjing Li Dupont nutrition and health 'The Innovative Discussion' is very important for the growth of this industry.

The article "Demonetization: A Viewpoint of Restaurant Industry," published by Dr. Milind Peshave, Shailendra Dareker (2017), talks about demonetization and its effects on restaurants. Impact on purchasing power, the impact of labor, impact on customer relations, willingly shift to cashless payments, etc were considered for their study, and it says that the quality of restaurant Food & Service is not deteriorated after the decision and restaurant have not been forced to shut down. "Banks not lending cash on daily on daily basis" & "reduced cash sales" were significant challenges. "Looking for the restaurant who accept other modes of payment" & "willingly shift to cashless payment" were significant changes observed.

According to Charu Sharma (2017); Food is already the most extensive retail consumption category in India, accounting for approximately 31% of the country's consumption basket, compared to 9% in the US, 17% in Brazil, and 25% in China.

According to the National Restaurant Association of India (NRAI) 2017, annual sales in the restaurant industry are 783 billion, and annual food and beverage purchases are projected to be at \$279 billion for the year 2017. Also, the restaurant industry generates the most employment; this is 14.4 million.

According to the Indian Food Report (Jan 2018), the foodservice industry in India was projected to grow at over 15% of CAGR (Compound Annual Growth Rate) between 2014 to 2020. By 2018 it is pretty clear that planning to start a restaurant in India is a short path to success.

According to Smit Nebhawani in the article "An Overview on Impact of GST in Restaurant Industry,"; the smaller outlets like food courts began, coffee bars cater to large segments of the population daily. The maximum people who fall in this business category earn modest income thus the new tax is likely to come under criticism. All kinds of hotels whether AC or non-AC, will collect the higher rate and this will bring an overall price hike in food items. According to latest GST update budget, hotels that are charging rs. 1000 per day for rooms are exempted from taxes. Hotels that are charging rs.5000 or more room tariff per day will have to pay 28 percent GST which is a significant threat to country's developing tourism and hospitality. Restaurants in such hotels, too, will have to pay 28% GST.

According to the article "Building an Appetite for Skill-Based Employment in Restaurant and Food Sector" by Nomita Das published in the website indiaapprecnticeshipforum.org; The Indian food services industry is characterized by an extremely high labour requirement at every stage- from procurement to delivery. Employment in restaurant and food services is set to rise to 9.5 million by 2022 from current levels of 6.2 million. The organised segment will provide 55% of the total employment in these sectors by 2022.

3. RESEARCH METHODOLOGY

3.1 OBJECTIVES OF STUDY

- 1) Analyse the facts that resulted in the growth of restaurants.
- 2) To understand the difference in the purchasing power, taste, and preferences of the customers.
- 3) To analyse the development in the service sector.
- 4) To analyse the impact on employment.

3.2 RESEARCH DESIGN

There were primary data collected for our study. The method adopted for collection of primary data is directly approaching the restaurants, in and around the Kottayam locality. The restaurants from where the data collected included newly established and the ones that have been already in existence during the time of the implementation

of the government policies which are demonetization and GST. Questionnaire adopted was of 3 types:-

1. For owners, managers, etc. (Top-level management) [29 respondents].
2. For the customers [37 respondents].
3. For the employees [37 respondents].

4. DATA ANALYSIS AND INTERPRETATION

The majority of the respondents comes under the age group of 15-25, and the least respondents were from the age group of above 40. The majority of the respondents (58.3 percent) go out and dine 5-9 times a month. It is followed by reasonably occasionally (30.6), i.e., 3-5 times a month. Rarely (2-4 time) and very seldom (0-1 times) have equal responses (5.6 percent). Monthly an average of less than ₹2,000 is spent by the respondents (44.4 percent) in the majority. Following this is the ₹2,000 – ₹3,000 brackets, which was chosen by 38.9 percent of the respondents. The slightly more affluent class have equally selected from between ₹4,000 – ₹5,000 and ₹6,000 – ₹9,000 which constituted of 16.6 percent respondents divided equally between both the brackets. There were no respondents who chose the option of more than ₹9,000.

There were mainly two types of restaurants from which the data was collected. These are sole proprietorship and partnership. Out of the 29 respondents 19 restaurants consisted of a individual business and ten respondents were partnership enterprises. It was inferred that most of the restaurant business has commenced after the implementation of Demonetization and GST, which is 22 (75.8 percent) of the company's established after the year 2016 and the remaining 7 (24.2 percent) before the year 2016. The implementation of demonetization though did have negative changes in the revenue in the initial period. This was recovered in the next few months, as was suggested by the respondents who chose Positive change (58.6 percent). But there were a few others who couldn't cope up with this change, and those were the respondents who decided Negative change (37.9 percent). A small proportion of respondents did not have any change (3.4 percent). This was a similar trend after the implementation of GST. The most common motive of setting up the business was profit that was chosen by 23 (79.3 percent) respondents. This was followed by Passion that was selected by 7 (24.1 percent), and then Social service opted by 3 (10.3 percent) respondents.

5. FINDINGS OF THE STUDY

This content has been divided into three parts as per the study. The following are the three parts:

- 1) Findings concerning Customers
- 2) Findings concerning Owners/Managers or Top-Level Management
- 3) Findings relating to Employees

i. FINDINGS WITH RESPECT TO CUSTOMERS

- A. Every month customers prefer to dine out in restaurants on a reasonably occasionally basis.
- B. Due to the increasing number of customers, the market potential of the restaurant business in the Kottayam locality has increased vastly.
- C. As per Say's Law of Demand, i.e., supply creates its own demand, the number of new restaurants or the establishments of new enterprises within the Kottayam area have proved to be automatically creating its own demand due to ever-changing tastes and preferences of the customers.
- D. Customers mostly prefer normal restaurants over any other class of restaurants, and this has acted as one of the significant reasons for the establishment of variety of new restaurants.
- E. Due to the new establishments, there has been diversification in the restaurants' traditional outlooks, and the customers can enjoy a wide variety of selection in terms of dining out, and this was one of the predominant reasons for the customers to have food in restaurants.
- F. Hygiene was one of the governing factors for the customer's choice of restaurants, and this was followed by price.
- G. In the past few years, Family restaurants have turned out to be very successful in Kottayam, which attracts more and more entrepreneurs to open a similar type of restaurant. This is also backed by the fact that the most acquainted group while dining out in a restaurant is family, which is closely followed by friends.
- H. Even though the implementation of demonetization affected the customers' purchasing power for a specific period, this did not affect any of their eating out habits and was restored to the typical scenarios within a short time itself.
- I. The restaurant business experienced a slight downfall when GST was implemented. This was because the initial tax rates were 18%, which was segregated as 9% Central GST and 9%. Due to pressures from various sources, these rates were reduced to 5% (2.5% CGST & 2.5% SGST), and this helped the business to recover and return to their ordinary course of functioning.

ii. FINDINGS WITH RESPECT TO OWNERS/MANAGERS OR TOP LEVEL MANAGEMENT

- A. The majority of the restaurants from which the data was collected were restaurants that were opened within two years.
- B. The primary reason for the establishment of new ventures is the increasing demand for a variety of food. Kottayam has proved to be an active market for finding potential customers who like to try out different types of food.
- C. The most common type of business followed in the locality is a sole proprietorship. But recently there has been a rise in partnership firms which helps in introducing more considerable financial assets as well as to expand the area of operations of the existing firms.
- D. Demonetization affected the number of customers visiting the restaurants regularly. But this was later on recovered within a specific period and gave a boost to the total number of customers than the previous figures.
- E. Just as demonetization, GST also affected the number of customers visiting the restaurants at the time of implementation, where the tax rates were 18%. This was corrected when the prices were decreased to 5% and this, in turn, increased the number of customers as well.
- F. There was a short-term revenue crisis during the implementation of both GST and Demonetization, but this was rectified through various corrective measures, and this also increased the overall revenues as well.
- G. GST triggered a change in the prices of items of the overall menu, which was in the form of increasing and decreasing the costs that would cope up with the tax rates as well as keep the customers visiting the restaurant regularly.
- H. Restaurant business has proved to be one of the most profitable companies in Kottayam locality, and this was one of the primary motives of establishing new firms and followed by Passion and then Social Service.

iii. FINDINGS WITH RESPECT TO EMPLOYEES

- A. The service sector has had a significant impact on the emergence of restaurant businesses. This is because employees in this field do not require past work experience or any educational qualifications for employment.

- B. There is proper remuneration provided to the duties carried out by the employees, which attracts more employees to the field.
- C. It is one of the employment opportunities that provides maximum job satisfaction and remuneration with minimum educational qualifications.
- D. The noncontract-based employment provides freedom for the employees to resign from their jobs if they are not satisfied, and they also have the choice of finding identical posts due to new establishments.
- E. Though this type of employment enjoys freedom in a higher aspect, the provision of employee benefits and allowances are provided to only very few members.
- F. Employers' encouragement for innovations from the side of employees motivates them to work better.

6. CONCLUSIONS

Demonetisation affected the economy to have a standstill in carrying out the day to day activities of the individuals for a short period. This changed some of the small scale and medium scale industries negatively. However, on the contrary, the restaurant business was contradictory to this economic crisis and resulted in having massive growth for the three years from when the Demonetisation has taken place. Prospects of restaurant businesses had a positive change and this led to immediate and immense growth in this industry, and it proved to be one of the most profitable businesses in the current economic scenario.

The indirect tax norms were more simplified with the implementation of GST in the country. But this hurt various industries, and some of them also resulted in their ultimate shutdown. This was due to the lack of knowledge about this tax system and its importance in maintaining tax documents by the small and medium scale businesses. The high rates of taxes also proved impulsive on various industries and ultimately resulted in accumulating huge losses. But just as the case of Demonetization, GST also had minimal effect on the restaurant business. It paved a path to increase competition in this industry due to various reasons.

The customers or the individuals who visit restaurants do so to find new varieties available to them. This demand of customers ultimately led to the establishment of new enterprises offering a wide range of items.

The restaurant business is also one of the most profitable businesses in the current economic scenario, and this is

one of the primary reasons why new entrepreneurs are attracted to this industry. The market for the same is extensive and is also increasing at a fast pace.

The employees in this field have maximum satisfaction because they are provided with proper remunerations for the duties they carry out, and they do not require any educational skills for employment in this field. The only governing factor that affects their job is communication skills with customers and willingness to follow the rules and regulations as decided and set up by the employer.

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