Repercussions of COVID-19 on small restaurant entrepreneurs: The Indian context

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Abstract

In the pre-COVID period, the restaurant industry had significantly grown in India in the past decade due to rapid urbanization and modernization. In the post-COVID period, the small restaurant entrepreneurs are fighting for their survival due to the lack of funds, a shift in the consumers' behaviour and perception, and negative cash flows. It has led to the closure of restaurants, loss of employment, and adversely affected the allied industries. The small restaurant entrepreneurs are exploring some new opportunities amid the crisis and adopting innovative approaches, technological and digital interventions to meet the consumers’ need for a contact-less dining experience. However, a joint effort on the part of entrepreneurs and government bodies will facilitate and fuel the restaurant industry's growth again.

KEYWORDS
COVID-19, India, innovation, restaurant industry, small entrepreneurs, SMEs

JEL CLASSIFICATION
L20; L26; M13; M15

1 | INTRODUCTION

In 2019 an infectious disease known as COVID-19 struck Wuhan, one of the most populous cities of China. Subsequently, the deadly virus spread across the world. Many countries are witnessing its unprecedented growth and life loss (Kaushal & Srivastava, 2020; Kuzilwa, 2005). Covid-19 pandemic is an “existential threat”, classified as a global shock by the United Nations Development Programme 1994 and by the UN Commission of Human Security 2003 (Rubin, 2011). Due to COVID-19, the world economy was shut down (UNWTO, 2020). A 2019 joint report from the WHO and the World Bank estimated the impact of such a pandemic at 2.2 percent to 4.8 percent of global GDP (Chaudhary, Sodani, & Das, 2020). The COVID-19 pandemic shocked the world as the health crisis gradually engulfed many nations and slowly it has turned into an economic crisis (Ding, Levine, Lin, & Xie, 2020; Ramelli & Wagner, 2020). The effect on health has been devastating, however, the catastrophe it cast sets it apart from any disaster in living memory (Huang, 2020). It is testing all leaders, entrepreneurs, and employees operating in different industries (Eggers, 2020; OECD, 2020).

Strategies to fight with COVID-19 are very different. As vaccines are not available, the only way to deal with it is to flatten their growth curve. This result could be achieved through social distancing, face masks, stay-at-home, and lockdowns. Travel and mobility restrictions have resulted in the temporary closure of many businesses (Bartik et al., 2020). India has multiple challenges on COVID-19 front. It is the second-most populous state (1,380 million) and is densely populated: 464 people/km². Therefore, it is challenging to maintain social distancing without total shutdowns, especially in big cities with crowded streets, trains, buses, and offices. Hygiene habits are nearly absent in the uneducated and poor class (Kamath, Kamath, & Salins, 2020). The Indian government implemented a 55-day lockdown across the country starting 25 March 2020, to break the virus's chain. The nationwide lockdown imposed across India was the biggest globally, forcing 1.3 billion Indians to stay indoors. Because of which economic activities were halted and had been devastating effects on the economy as eateries, factories, transport, services, and business establishments were shuttered during the public curfew (Singh, 2020).

The lockdown impeded the industrial sectors negatively (Kumar, Kumar, Christopher, & Doss, 2020). Due to the restrictions on travel,
movement, and public gatherings, one of the most badly affected sectors is India's hospitality sector. Extant literature has found that the hospitality industry is susceptible to infectious diseases and epidemics (Wu, Law, & Jiang, 2010). The pandemic has negatively impacted the small restaurant entrepreneurs as they fight for their survival due to the lack of funds and negative cash flows even after the lockdown period. The dine-in restaurants in India were not allowed to reopen for 6 months, which has left them with zero savings and has led to mass unemployment. This article aims to discuss the challenges posed by COVID-19 for the small restaurant entrepreneurs in India. It also explores the opportunities and possibilities for these entrepreneurs in the new normal.

2 | LITERATURE REVIEW

The starting of the decade 2020 has been shocking to the entire world. It has unsettled the world with a new disease in the line of over 30 novel infections that the world has experienced in the past 30 years (Nkengasong, 2020). Due to globalization, every country gets affected by the incidents happening in another part of the world. Firms are interconnected through trade within and across sectors (Hosain & Rasel, 2020).

Pieces of evidence point that the virus has its association with Wuhan's seafood market (Wu et al., 2020; Xu & Li, 2020) a city in Hubei province in China. It spread was very fast. The first case was reported in China on December 12, 2020, but by the month-end in January 2020, the virus had infected around 2000 people in the country (Wu et al., 2020). The virus has a high tendency of getting transmitted among the human population (Bai et al., 2020; Gautam & Trivedi, 2020; Liu et al., 2020). The outbreak has shaken the world in an unprecedented way (Yang, Liu, & Chen, 2020).

The pandemic and efforts to curtail its spread are taking an economic toll across the world. China's economy shrank 6.8% in the first quarter of 2020. Eurozone economies shrank at 14.8%, while the US economy shrank at an annualized rate of 4.8% in the first quarter of 2020. Many analysts project it will shrink at a rate of 25% or more in the second quarter (Barrero, Bloom, & Davis, 2020). The cause of the recession of 2020 is novel in the history of mankind. For instance, the Asian recession of 1997 was caused by Thai Bhat's collapse (Radelet & Sachs, 1998); 2008 economic crisis was caused by subprime mortgages' and week regulatory mechanisms such as surfaces, cutlery and crockery, food (Leung & Lam, 2004). Even after the lift of lockdowns, hospitality remains a high-risk industry, as the threat of a second wave of infection looms large (Xu & Li, 2020). Most research has been on food handlers and food safety (Murphy, DiPietro, Kock, & Lee, 2011). The foodservice industry is vulnerable to health crises such as pandemics as there is a lot of human interaction and gatherings (Yang et al., 2020).

With the increase of the COVID-19 pandemic severity, an adverse impact is visible on restaurant firms' liquidity and operational risks as there is a sharp downfall in customer demands (Ozili & Arun, 2020). Also given the looming uncertainty, many large investors are wary of investing, leading to a sharp decline in restaurant firms' stock returns (Ding, Levine, Lin, & Xie, 2020). The restaurant's business thrives on people's gatherings and outings. But as social distancing is one of the important measures to reduce the spread of COVID-19 and flatten the curve, the food and beverages industry is the hardest hit (Mehrotra, 2020).

3 | RESTAURANT INDUSTRY IN INDIA

Restaurant entrepreneurship is a challenging business as this industry must continuously evolve to meet the consumers' ever-changing tastes and preferences. The restaurant industry has grown in India in the past decade due to rapid urbanization and modernization. This growth can also be attributed to the increase in the number of women joining the workforce, rising numbers of nuclear families, increasing incomes, young population, and changing lifestyles. Traditionally Indians have taken pride in cooking meals for their families (Goyal & Singh, 2007). India is known for its various food varieties, and food holds a special place in Indian societies' culture and heritage. Socializing with family and friends over food is a way to stay connected with the culture. However, the increasing urbanization restaurant industry found its place in the metropolitan cities and has been growing ever since. India has one of the largest millennial populations across the world. These millennials are career-driven individuals with global exposure with more disposable incomes, who have different food habits than the previous generations. This segment of the Indian population likes to eat out and wants to have different food experiences.
Young consumers are now ready to pay for convenience, experience, and ambience.

As per the Indian Food Services Report (IFSR) 2019 of India’s National Restaurant Association (NRAI, 2019), this sector has experienced tremendous growth in the last 3 years. It has grown at 11% CAGR during the period 2015–2016 to 2018–2019. The sector is estimated to reach a size of Rupees 599,784 by the year 2022–2023. It is also a significant generator of employment opportunities and employed 7.3 million people in 2018. It is one of the largest service-based industries and contributes around 3% to India’s gross domestic product (GDP). According to the Federation of Hotels and Restaurant Associations of India (FHRAI), the Indian hospitality sector’s apex body, there are about 53,000 hotels and 7 million restaurants in India in the organized and 23 million restaurants in the unorganized sector.

Figure 1 shows the classification of the restaurant industry in India. In this paper, the challenges for the stand-alone restaurant entrepreneurs have been discussed as these restaurants fall in the category of small and medium enterprises (SMEs). The challenges faced by them during the pandemic are different from other types of restaurants as they do not have corporate safety nets or huge funds to help them out in any crisis. These SME restaurant entrepreneurs operate the business with the help of their own funds or borrowed funds. Their sources of financing are private rather than institutional (Chen and Elston, 2013; Kuzilva, 2005; Motta and Sharma, 2019). But they make an important contribution to the economy of India by employing 7 million people.

3.1 The restaurant industry and COVID-19

COVID-19 pandemic and the nationwide lockdown have affected the restaurant industry in India worst. As per the estimates of FHRAI, India’s hospitality industry is facing a significant crisis wherein 70% of the total hospitality establishments may shut down in the absence of support from the government. The initial lockdown, which continued for 55 days, was aimed at curbing the virus’s spread. During this period, only essential services were allowed to operate, so all the restaurants had to suspend their operations. After the lockdown was lifted, the restaurants could not start the dine-in services, and only takeaway orders were allowed.

After being completely shut down for almost 6 months, the government authorities started to relax the restrictions. The dine-in restaurants were allowed to open at reduced capacities with the social distancing norms. After the reopening, the rebound has been very gradual. The customers will not come back immediately after reopening restaurants (Gursoy & Chi, 2020). The restaurant entrepreneurs face significant uncertainties in consumer demand as they avoid public places and are increasingly concerned about hygiene and safety (Ozili & Arun, 2020). The restaurants are witnessing a considerable decline in consumer footfall, as the home dining trend increases amid the pandemic’s fear. According to the rating agency CRISIL, the Indian restaurant industry is witnessing a 50 to 70% decline in revenues in this fiscal year because of the disruptions caused by the pandemic. The dine-in restaurants are now dependent on home deliveries, and takeaway orders as the consumers prefer to stay away from public places. It has also led to the closure of restaurants (Song, Yeon, & Lee, 2020), loss of employment, and adversely affected the allied industries like dairy, horticulture, food processing, logistics, and delivery partners. The famous food delivery services company Zomato released a mid-COVID report in August 2020, wherein a survey was conducted among thousands of restaurants and customers across various cities in India. The report presented the current state and the Indian Restaurant industry’s future outlook in the mid-COVID period. Figure 2 below shows the findings of the report. As can be seen, the report revealed that only 9 to 29% of restaurants reopened in the metropolitan cities after the authorities eased out the restrictions.

Restaurants in India operate on a lean margin of 10 to 15% of their earnings before taxes with around 3 weeks of cash flow and excessive debts. Amid the pandemic, the restaurants had zero cash flows, so it became very difficult for the restaurant entrepreneurs to sustain their businesses. As the economy tries to recover, demand recovery will be unpredictable and slow to return to the pre-pandemic levels. Restaurants are now faced with higher operational risks (Lin, Song, Sharma, & Lee, 2020). Restaurant entrepreneurs have also been forced to reconsider and redesign their cost base and capital in their operations (Baig, Hall, Jenkins, Lamarre, & McCarthy, 2020). They have to reduce their fixed costs or transition from fixed costs to variable costs and practice stringent cost control measures wherever possible, which might involve closure of some outlets, reducing salaries paid to their staff, lay-offs, and employment termination. Restaurants need efficient cost management strategies due to the restaurant industry’s weak financial structure (Alonso & Krajics, 2014; Mun & Jang, 2018). NRAI estimates suggest that one in every four restaurants in India may never open again as the industry’s losses reach as high as 1,000 billion Rupees amid the pandemic and the falling demands. As a result, around 2.2 million people employed in the industry may lose their jobs.

After the reopening of restaurants, many entrepreneurs face a shortage of staff as the staff members had migrated to their hometowns. Most of the staff working in the Indian metropolitan cities are migrant workers who migrate from small towns and rural areas to work in the cities. Hiring and training appropriate staff members are crucial for service quality in the restaurant industry (Chaudhry &
Also, the restaurants had been completely shut down for almost 6 months due to which the interiors and infrastructure in these restaurants required some renovation and maintenance. This policy would require more funds, which again is a major problem for the small entrepreneurs because they were using their savings during the shutdown period for salary and other utility payments.

4 | CHALLENGES FOR THE SMALL RESTAURANT ENTREPRENEURS

COVID-19 has thrown several challenges at the restaurant entrepreneurs, who will have to quickly pivot their business strategies to address these challenges for a successful recovery (de Freitas & Stedefeldt, 2020). One of the short-term challenges is to lower down the expenditure and operational costs. In this scenario, a long-term challenge is a significant shift in consumers’ behavior and perception, their consumption patterns, expectations, and new trends. Amid the pandemic, the first and foremost challenge that the restaurants face is maintaining social distancing or a distance of ~6 ft among their employees at the workplace. The commercial rental spaces available for restaurants in India’s urban and metropolitan cities are costly. The restaurant entrepreneurs run their business in limited space wherein the space allocated to the restaurants’ kitchens is even lesser. Given this constraint of space, distancing is not possible in most of the restaurants. Few of India’s restaurants have considered and redesigned their dining spaces for outdoor options to maintain a distance of 6 ft between the tables. However, it is not a feasible idea for most restaurants due to the unavailability of space for open seating.

Moreover, outdoor dining is not a popular option in the Indian scenario as India has a tropical climate. Outdoor dining is generally prevalent in European and some American countries when the weather is pleasant. Thus, the Indian restaurant entrepreneurs must make a careful evaluation for identifying and implementing operational changes that might enable separation or distancing between their employees and diners.

The second challenge is maintaining effective hygiene and frequent sanitization practices to reduce the risk of spreading the virus and fulfill the customers’ expectations (Gursoy & Chi, 2020). The entrepreneurs might tackle this issue by providing adequate training to the employees about thermal scanning, regular hand-washing and cleaning routines, and sanitizing all the surfaces. However, with all that is to be done additionally for maintaining hygiene, the costs will increase.

The next and the biggest challenge, however, is to manage the change in consumer behavior. Consumers have become increasingly conscious about hygiene and sanitation and averse to the idea of dining out. The restaurant entrepreneurs might be required to raise consumer awareness through online exercises or digital mediums to inform the consumers about the precautions being taken for ensuring their safety at the restaurants. Communication will play the central role in reaching out to the customers and keeping them well-informed about the restaurants’ new safety and hygiene standards. The restaurant entrepreneurs will have to adopt confidence-building measures to reassure the customers of their safety and bring them back to the dine-ins.

5 | NEW TRENDS IN RESTAURANT ENTREPRENEURSHIP

Although the COVID-19 pandemic has presented the small restaurant entrepreneurs with unprecedented challenges and had overwhelming effects on their employees and customers, the industry’s operations and revenues have been hit badly. However, it has also opened up the avenue for research and innovation in the industry while some entrepreneurs are taking the opportunity to introduce innovations in their business. They are willing to take the risk as risk aversion may hamper the exploration of new opportunities (Mor, Madan, & Chhikara, 2020). While human contact cannot be completed eliminated in the restaurant business, the entrepreneurs are developing innovative solutions to reduce human contact, which will also pose a lesser risk of spreading the virus. COVID-19 has changed customer behavior significantly and has led to several new trends in the restaurant industry. The entrepreneurs are trying to innovate to provide a safe dining experience to their customers. Some of these new trends have been discussed hereafter.
1. **Contactless experience**—As COVID-19 can spread through various infected surfaces, the restaurant entrepreneurs are innovating and trying to develop a contactless experience for their in-house diners. They recognize that digital technology can help them reduce human contact in their service delivery (Vi et al., 2017). Physical contact is being avoided at several points, such as making provision for online reservations and asking the customers to be seated at their designated tables. Restaurant entrepreneurs are using mobile apps that offer the service of online reservations. Similarly, contact is also being avoided by allowing pre-ordering through an app, which reduces the customers' waiting time while at the restaurant. Some restaurant entrepreneurs have installed contactless tracking devices in their restaurants that allow contactless thermal scanning and check whether the visitors are wearing masks on their faces while entering the restaurant. Some others have replaced the physical menus with digital menus, QR-coded menus, or allow the customers to view menus on their devices and smartphones, enabling them to place an order without touching the physical menu.

2. **Digital payments**—Digital payment solutions will play a central role in the COVID-19 period. The restaurant entrepreneurs are recognizing this fact and accepting payments through digital and online platforms. To increase digital payment, the Indian government has launched many schemes and given approvals to many policies (Agarwal, 2020). Many fintech companies are trying to enter the market, offering various digital payment solutions. The government has already invested a massive amount in the Indian digital payments industry with payment gateways and mobile wallets. The apex banking regulator, the Reserve Bank of India provided a license to 11 companies to set up payment banks in India in 2019. In the current pandemic scenario, digital payments are the preferred payment method for minimizing human contact. Governments worldwide are promoting the usage of digital payment solutions for conforming with the social distancing norms, as digital payments help reduce crowding at cash-withdrawal points like ATMs, banking branches. Restaurant entrepreneurs are also promoting digital payments in this situation.

3. **Cloud kitchens**—To reduce the losses due to low footfall in the dine-in restaurants, some entrepreneurs shift from the traditional kitchen to the cloud kitchen model for scaling up their deliveries. A cloud kitchen provides takeaway deliveries and does not allow dine-in. Restaurants mostly have relatively high operational costs (Alberca & Parte, 2018). As the restaurants are most popular in India’s urban and metropolitan settings, where the real estate prices are very high, the restaurants have high fixed costs in the form of rental expenditure, fixed lease cost, or mortgage. The Cloud kitchen model helps them to reduce this cost. These cloud kitchens are listed with the popular food delivery apps in India such as Zomato, UberEats, Swiggy, and Food Panda.

4. **Digital marketing**—The whole business world is at the cusp of a digital and technological revolution. The need of the hour to adopt more innovative and creative approaches for conducting business in the new normal (Dannenberg, Fuchs, Riedler, & Wiedemann, 2020). The restaurant entrepreneurs are also adopting digital marketing approaches, new technologies, and software applications for reaching and influencing their customers. During the pandemic, smartphone, and mobile marketing will also reach a new high. Digital marketing will play a pertinent role for the restaurant entrepreneurs in establishing and maintaining communication with their customers.

5. **Immunity boosting food options**—COVID-19 has led to a revolution in menu engineering at restaurants. The restaurant entrepreneurs are trying to develop new food options such as healthy food bowls and immunity-boosting food options. The customer preferences have also changed amid the pandemic. As it is common knowledge that COVID-19 attacks people with low immunity (Arshad et al., 2020), the customers now prefer aggregate meals and immunity-boosting holistic meal options. They are staying away from processed junk food, choose healthy options, and have become conscious about the nutritional content of their food. Customers are increasingly giving priority to a la carte meals rather than buffet spreads. In this scenario, the restaurants are making their buffet services pre-portioned so that it involves less sharing. Entrepreneurs are also preferring to work with local vendors and food suppliers for procuring their daily supplies for food preparation at restaurants.

### 6 | POLICY MEASURES AND IMPLICATIONS

Restaurant businesses are capital intensive. The restaurants in India were completely shut down for 6 months, which has resulted in negative cash flows, increased debt burdens, and millions of job losses. Due to this unprecedented crisis, the restaurant entrepreneurs are fighting for their survival. Several million restaurants have shut down and may never open up again. This situation demands relief policy and measures from the government for saving these SMEs. The Indian government announced an Emergency Credit Line Guarantee Scheme (ECLGS) as a part of the “Atmanirbhar Bharat” package to provide some relief to small businesses. Under this scheme, they received some working capital to resume their operations. However, out of the targeted 3,000 billion, only 40% was disbursed by the end of September 2020. The Indian government had also provided a moratorium period on loans and other types of credits availed by SMEs and corporations. The moratorium period ended on 31 August 2020. The banks have started demanding their monthly installments and interest on loans without considering that the restaurant entrepreneurs face a severe liquidity crunch due to shut down of business. Moreover, they are under financial stress as they had to manage operational costs during the business’s dormant state.

In this situation, the SME restaurant entrepreneurs are looking forward to some urgent measures to be taken by the government in either tax holidays or tax benefits. The government may consider deferment of statutory dues such as goods and services tax (GST), advanced tax payments, liquor license fees, pollution control consent
fees paid by restaurant entrepreneurs for at least a year. This policy might enable the entrepreneurs to save some cash flows for taking care of more urgent expenditures like payment of salaries and wages and payment to the small suppliers and vendors. The government may also consider deferment of all utilities such as water and electricity is supplied by state-owned enterprises or public sector utility providers. The government can also make provision for “unemployment pay cover” for this sector employees who have lost their jobs amid the crisis. There is an urgent need to introduce social protection schemes for the workers rendered unemployed in this industry (Gentilini, Almenfi, Orton, & Dale, 2020). NRAI, in its representation to the Ministry of Finance, has suggested that the government can provide support to the employees who are covered by Employees State Insurance Corporation (ESIC) scheme through the ESIC corpus or any other welfare scheme. There is a need for policy-makers to use entrepreneurship for managing the change in the post-COVID period (Ratten, 2020).

7 | CONCLUSION

The Covid-19 crisis has left the small restaurant entrepreneurs battling for their existence and survival. They are facing numerous challenges such as higher costs, lower business volumes, growing debt burdens. Moreover, the biggest challenge is changing consumer behavior and expectations. While some entrepreneurs have closed their business, others are exploring the opportunities and possibilities in the new normal. With the sudden change in the business environment and consumption patterns of the customers, the entrepreneurs are required to change their perspective about the restaurant business. Technology integration and adoption into business operations are likely to be integral in the near future. The entrepreneurs are also required to carefully evaluate the new trends and study the consumer perception and behavior for meeting consumer needs. They have to understand that the Indian restaurant industry is still rife with new opportunities.

Eleven months after the first case of deadly coronavirus was detected in India, the Drug Controller General of India (DCGI) has recently approved two vaccines for emergency use, paving the way for their roll-out and administration millions of people of India. This vaccine approval is a major relief for India, which has the second-highest number of infections globally, after the US. The revival of the restaurant business will depend on the effectiveness of the administration of the vaccine. The customers are looking forward to a stress-free experience of dining out. COVID-19 has not finished the business; instead, it reshapes this industry with new trends and innovations. A joint effort on the part of entrepreneurs and the government bodies will be required to facilitate and fuel its growth. The key to the revival of the restaurant business lies in the right stimulus from the state, innovative approach of the entrepreneurs, technological and digital interventions, and keen attention to the consumers’ and employees’ health and safety.

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How to cite this article: Vig S, Agarwal RN. Repercussions of COVID-19 on small restaurant entrepreneurs: The Indian context. Strategic Change. 2021;30:145-152. https://doi.org/10.1002/jsc.2398