



COVID-19 on Small Catering Businesses - Analysis of Negative Impacts and Recommendations

Mijia Xiong

Hangzhou No.14 High School, Hangzhou, Zhejiang, China, 310000
2366288396@qq.com

ABSTRACT

During the "Golden Week" of the Spring Festival in 2020, the catering industry suffered losses due to the impact of Covid-19. Many catering enterprises, especially small and medium-sized catering enterprises, are facing severe cash flow pressure, which has led to bankruptcy. In this regard, in order to revive the catering industry, the Chinese government has formulated and issued some policies to help the catering industry overcome the crisis, including rent reduction, lending, tax reduction, and other policies. However, most of the policies have some drawbacks. Therefore, for small catering enterprises, this paper mainly uses the method of Literature Review, focuses on the discussion of three existing policies and their shortcomings, and puts forward two policy suggestions.

Keywords: *Small Catering Businesses, Policies, Covid-19, Economics*

1. INTRODUCTION

The Spring Festival holiday is a traditional peak season for the catering industry, which empirically contributes around 16 percent of the annual operating revenue[1]. However, the status quo has worsened drastically as most Chinese citizens are forced to stay at home in response to the pandemic, and the catering industry faces great challenges in surviving heavy economic losses and operational difficulties. According to the National Bureau of Statistics, Covid-19 has caused at least CNY500 billion loss during the "golden week" of the Spring Festival this year. As a result, many catering enterprises are facing a severe strain on their cash flow, as well as the pressure of malfunctioning supply chains with ever-declining market demand. Under such pressures, 79% of catering enterprises lost more than 100% of their operating income, 9% of enterprises lost more than 90% of their revenue, and only 5% lost less than 70% of their income [2], which is a devastating blow for those small and medium-sized catering enterprises. To revive the catering industry, the Chinese government has issued several policies like cutting rents, offering loans, and reducing taxes. This paper uses the method of Literature Review to discuss the specific implementation methods and possible problems of the three policies - Cutting rents, Flexible Pandemic Control Policy, and Special Loans - and puts forward two policy suggestions for the possible problems.

2. POLICIES

2.1. Cutting rents

Analysts from TAI media find that rents account for 20%-25% of sales. A survey by the China Restaurants Association finds that 77.5 percent of restaurant owners say they have pressure on store rents [3]. The Chinese government actively encourages landlords to lower rents, as well as allows small to medium-sized catering enterprises operating in state-owned assets to be exempted from rent. Hence, rents across the country have fallen sharply, with a cumulative decline of 4.27% [4].

Actually, cutting rents on small and medium catering businesses ease the cost of production by a quarter, thereby increasing the supply. Hence, firms attain higher revenue and increase the general output of Chinese economy, making up the pandemic loss of 500 billion Yuan, according to Qianzhan Research Institute. Meanwhile, the National Bureau of Statistics data indicates that catering businesses revenue has increased by 18.6% in 2021 thanks to loans issued [5]. This shows that cutting rents is an effective method.

Additionally, cutting rents indirectly stimulated the economy and facilitated capital circulation. But as the rent decreases, landlords also lose a portion of their income. Since more than 60% of them purchased the estate by taking loans from the bank, landlords who rely

on rents may not be able to pay back in time, causing detrimental harm to bank mobility [6]. In response, local governments have adopted tax reductions on landlords as well, where more than 3,800 landlords in Shanghai are exempted from Property tax, urban land use tax during the epidemic period, with a total amount of CNY560 million [7].

2.2. Flexible Pandemic Control Policy

Besides fiscal policies, local governments are also adopting more flexible pandemic control policies to hasten catering services recovery. Recently, the Government focused a lot on removing policy challenges especially the dangerous situation of SMEs. On that basis, we can apply the policies flexibly depending on each region and each locality. For example, in high-risk areas, testing campaigns and solutions also need to be flexible and changeable. The issue of tracing must also be different, the issue of essential food supplies also needs to be more flexible [8]. This policy is feasible, Hongkong as example, has increased the maximum number of gatherers per restaurant from 8 to 40 persons [9].

2.3. Cutting Taxes

The Chinese government attempts to use tax cuts to help the recovery of small businesses, which, according to China Briefing, are companies that have an “annual taxable income not exceeding RMB 3 million, number of employees not exceeding 300, and total asset value not exceeding RMB 50 million.” Enterprises that fit all three conditions are subjected to a reduced corporate income tax rate of 5% compared to the usual 25% [10]. In addition, small companies are subjected to a value-added tax rate of 1%, compared to the usual 3% [10].

Reduced tax rate helps the economy revive faster and support small and low-profit enterprises. For firms that lack a stable cash flow, a reduction in tax rate helps small corporations maintain their business functions and productivity. Corporations can save around RMB 117.7 thousand if their annual taxable income is RMB 3 million, the maximum income to qualify for a small business.

This money may not cover all business costs, but it can sustain businesses through a desperate period. According to Statistic, grade A office spaces in Beijing, the city with the highest rent in China, cost around RMB 4,000 per square meter every year. While this seems like a steep cost, in most places, RMB 117,700 can cover a significant enough portion of the rent for many businesses to survive in the pandemic.

There are also downsides to tax increases that could lead to long term harms. For instance, a decrease in tax income for the government leads to increasing financial

deficits. China’s financial deficit increased from 2.8% to 3.6% in 2020. Financial deficit could lead to future instability as prices of goods become inflated, it could have an overall negative impact on the state of the market. Another harm of tax cuts could be over reliance. The more the government cuts taxes, the more the people become reliant on a very low tax rate. As the economy returns to normal, social dissent might rise and expectations on the market might become more unstable, slowing economic growth and harming small businesses in turn.

3. DEFICIENCIES IN POLICIES

3.1. Matthew Effect

Nevertheless, though the loans can impact a few, vast small catering businesses gain little benefit. According to the Ministry of Commerce, only 22% of catering firms could gain access to these special loans. Unfortunately, according to the Chinese Business Review, relatively minimal collateral value severely hinders small businesses’ loan capability while bigger restaurants are granted excessive funding [11]. With the help of loans, large chain enterprises can invest more and expand menus. At same time, it will further expand the market share by opening more branches. Gradually, small businesses that are initially disadvantaged in terms of cost and publicity will be more unfavorable position [12]. In Fuzhou, local chain enterprises rapidly expanded their market share by 30%-50% under the capital assets of loans. Due to insufficient funds to compete with the chain enterprises, and the market share was compressed, many small restaurants were eliminated in the fierce competition. Therefore, the benefit of loans to small and medium businesses are limited.

Regarding the tight fiscal budget, many local governments are facing, increasing special loans place heavier stress on the budget. In recent years, in response to downward pressure on the economy, fiscal spending has expanded and the fiscal deficit stayed at a high level: In 2019, the national deficit is 2.8 percent and the government deficit was 2.76 trillion yuan. A recent report by S&P Global finds that the fiscal expenditure of local governments in China has increased by 5%-10% due to pandemic recovery policies. On a broader scale, Yang Zhiyong, deputy leader of the Institute of Financial Strategy at the Chinese Academy of Social Sciences, suggested that fiscal revenue decreased significantly due to tax cuts policies, and the fiscal deficit-to-GDP ratio is expected to exceed 3%. Analyst of S&P500 suggested that increasing special loans issued to aid businesses place a heavier burden on local governments, causing long-term damage [13].

Furthermore, the loans could be spent on relieving other struggling industries, thereby resulting in an opportunity cost on a broader scale. Both direct

government provision and granting of loans to catering services involve the use of government funds that rely on tax revenues. In the case of loans, the funding could be spent on other businesses, like transportation and entertainment, all of which have experienced significant loss through the pandemic. For instance, the offline entertainment industry, including cinema and amusement parks, has shrunk by more than 90 billion Yuan. Traveling businesses have experienced more than 3000 billion Yuan decline and are great in need of government direct subsidies. Hence, the next best alternative, saving traveling or off-line entertainment businesses, is sacrificed as loans are spent on catering businesses.

3.2. Increased risk of infection

However, as more diners gather in the restaurant, the risk of infection surges. As more diners gather in the restaurant, the risk of infection surges as the loose policy may accelerate the spread of the virus, imposing a threat to public health. In October 2021, the origin of the chain infection is determined to be a restaurant under flexible pandemic policies. Close contact and insufficient protection result in 17 infected and entire region lockdown [14]. When a series of infections occur, related restaurants will be classified as medium to high-risk regions, stopping local restaurants from generating any revenue for at least 14 days. Hence, it is not wise to reduce pandemic restrictions regarding the potential risk of accelerating the Covid-19 pandemic.

4. SUGGESTIONS

The major effects of the above policies lie in reducing the cost of production. However, while these policies have been adopted to aid the small to medium enterprises in the catering industry, over 30,000 small restaurants still shut down, proving that pressure relief on the supply side isn't the sole solvency. Consumers' willingness to consume is one of the most important factors stimulating the vigor of markets and competition. Thus, several other policies are urged to assist the catering industry enterprises to recover from the previous economic losses. By offering welfare and free services to the consumers, small to medium enterprises in the catering industry are enabled to welcome more business opportunities and sell more products while the minimized cost can be covered completely. The two following suggestions assist the enterprises by increasing the demand for their goods and building their brands.

4.1. Gourmet Festival

Gourmet festivals can function effectively in promoting foods and services offered by enterprises in the catering industry. Not only should they offer coupons for food try-out but also unite with other small businesses to attract more attention. Small to medium enterprises are

benefiting especially from gourmet festivals since they are less capable of advertising on their own in comparison to bigger corporations in their industry. Thus, if companies want to publicize their brands, they should form alliances with other restaurants and local governments to hold festivals, especially in outdoor venues in light of the current Covid situation.

The effect of the Chinese government's previous attempts in holding gourmet festivals, reported by the Chinese State Council, was self-evident. The Ministry of Commerce launched a series of activities of "food gathering in thousands of stores" to accelerate the replenishment of catering consumption. Through the efforts of all parties, catering revenue has recovered steadily, picking up month by month since March 2020. Catering revenue increased by 0.8% in comparison to previous years, achieving positive growth for the first time in 2020 [15]. Thus, holding more gourmet festivals must be encouraged among small to medium companies to recover from economic losses.

Higher popularity not only increases revenue but also brings several spreading benefits like helping to attract more investment and thus promoting GDP growth. Secondly, non-material cultural heritage crafters are more capable of maintaining their heritage due to rising awareness, boosting their profits, and encouragement to keep on doing their businesses. The only downside of this policy is some small to medium companies could not afford to hold the festivals, which limits the number of stakeholders benefiting from this policy.

4.2. Paid Posters

With the rapid development of social media and other online information sources, people are having increasingly more preference in trusting online information shared by other users, especially during the special time of COVID that limits people's offline activities. Once consumers want to gather more information to make their decisions in choosing ideal restaurants, small to medium companies that hold less advantage in monopolizing advertisements and publicizing brands could instead get individual bloggers to post relevant content online like lovely pictures of the atmosphere or signature dishes the restaurants offer. Furthermore, these bloggers are also more professional at understanding what consumers are longing for, and plan food-seeking journey that are more suitable for consumers.

Instead of paying cash directly, restaurants can offer free meals to the bloggers in return for their advertising effort through social media, bypassing the intense competition in a TV advertising campaign and other traditional media. While the bloggers employed by the small to medium businesses might be less famous in comparison to celebrities employed by monopolies, these

bloggers have their unique advantage in gaining consumers' trust since they seem more like day-to-day users, eliminating consumers' concerns of disingenuous acclaim deriving from the fact.

5. CONCLUSION

COVID-19 posted unprecedented challenges for all industries around the world. Current government policies is mainly to reduce production costs. In view of the overall recovery of the economy, the catering industry can increase consumers' willingness to pay from two aspects. Firstly, the small business in the catering industry could distribute coupons for food try-outs, which attracts consumers to consume in these restaurants first. Further, small businesses could hold gourmet festivals or employ bloggers to publicize their products online, building their brands more creatively and boosting their revenue. However, for small catering enterprises, how to find a balance between high publicity costs and profits brought by marketing needs further research and investigation.

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