

THE RESPONSE OF THE ROMANIAN HOSPITALITY INDUSTRY TO THE COVID-19 PANDEMIC. FOCUS ON THE RESTAURANT INDUSTRY

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Abstract

The pandemic situation that began in 2019 directly affected all industries. The most affected industries are: airlines, cruises, HORECA, entertainment, etc. The restaurant industry, which is part of the HORECA industry, was severely affected throughout the world. The industry faced many restrictions in 2020 and 2021. Among most common, we can mention: temporary suspension of the activity, limited operating hours and available seats, access restrictions (like EU Green Certificate, for indoor activities), etc. As a response to legal regulations in order to avoid the spread of the virus, but also to prevent a further economic downturn, each industry had to take various measures.

This article contains a theoretical overview of the evolution of the restaurant industry during the pandemic, from March 2020 to the present day. An analysis, based on qualitative research, of representative restaurants, in their category, for Romania shows how different actions were taken to adapt to the new normal. Furthermore, the research presents an important view of the future of the industry. The purpose of this paper is to analyze the changes produced and the adaptability of the restaurant industry to the current and ever-changing situation. The results revealed many interesting measures that similar companies and hope for better times.

Keywords:

Restaurant industry response, COVID-19, Romania

JEL Classification: L83, M19, Z31

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1. Introduction

The pandemic crisis that began in 2019 has had a direct impact on all industries. Airlines, cruises, hospitality, entertainment, and other businesses are among the most affected. The restaurant business, which is a subset of the hospitality industry, has been hit hard across the world. In 2020 and 2021, the sector was subject to several regulations. Temporary cessation of the activity, limited operation hours and available seats, access limitations (such as the EU Green Certificate for indoor activities), and so on are some of the most typical. Each industry had to adopt various precautions in response to legislative rules in order to avoid the spread of the virus, as well as to avert a further economic crisis.

Several studies were conducted to uncover new business prospects and models. Björklund et al. (2020) investigated how packaged food and beverage companies in Finland used the COVID-19 issue to generate and capture new value. Collaborative experimentation and prosocial support were also important components. New business models suited to new realities have resulted from new collaborations, operations, and products.

For a few months, when restaurants and bars were closed for dining, home delivery and take-out were the standard. This circumstance necessitated several modifications to the operating methods and client relationships. Embracing this method of operation means having the opportunity to balance cash flow and be present on the market. A study of 623 German owners and restaurant managers (Neise, Verfürth,

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and Franz, 2021) found that delivery and takeout services, property ownership, and owner age all improve the chance of company resilience.

This study provides a theoretical summary of the evolution of the restaurant industry during the pandemic, from March 2020 to the summer of 2021. An examination of sample restaurants in their category for Romania, based on qualitative research, illustrates how different activities were made to adapt to the new normal. In addition, the study provides an essential perspective on the industry's future. The goal of this article is to examine the changes that have occurred and the restaurant industry's capacity to adjust to the present, ever-changing circumstances.

2. Literature review

COVID-19 is a crisis with an unprecedented impact in the hospitality industry. Although it started in 2020, its effects are still present worldwide. Different regulations and limitations for the travel industry, accommodation units, restaurants and bars, events were in place in all countries, in summer 2021. But the year 2020 looked different from 2021, with severe restrictions in all aspects of our daily life.

For Romania, we had a lockdown period that started in March until 14th of May, under a state of emergency that began on March 14. From 15 May to September 13, Romanians were in a state of alert and some relaxation measures were imposed: malls, museums, terraces were reopened. On 1st of September restaurants, bars, and cafes inside buildings were reopened, but with a limited program. After this, the National Committee for Emergency Situations established 3 scenarios (green, yellow, and red) based on the cumulative incidence rate per 1,000 inhabitants in the last 14 days. Each scenario came with different restrictions. From November 6th to February Romania was in a stage of partial lockdown with a curfew between 23:00 PM and 5:00AM, with restrictions for both restaurants, and accommodation units (limited number of guests at a table, limited occupancy, restricted operating hours, use of mask and sanitizers).

In general lines, this is the framework in which the hospitality industry has operated in the period of the present study. It was a year of lockdown, periods of restrictions relaxation, and partial lockdown. In general, restaurants and cafes were open only half the time. This situation leads to the need to take measures to survive on the market.

Although some financial incentives were granted, state companies had to adapt to the new reality in order to be able to reopen in 2021. The goal of this paper is to see what measures were taken in 2020 by several businesses in the food and beverage sector to keep their guests, employees, and ensure survival until 2021, using qualitative research.

2.1 *Operating in crisis*

Regardless of the measures, this crisis and its implications in the HORECA industry are a multifaceted topic. Regarding the time, a crisis can be seen as an event that threatens the existence of an organization (Pearson and Clair, 1998) or as a process with an evolutionary course of actions (Roux-Dufort, 2007).

Due to its duration in time and effects, COVID-19 can be seen as a process, not as a standalone event. A crisis has multiple phases and multiple stakeholders are interlinked. This fact raises the necessity to continuously adjust and realign the business in order to survive and gain resilience (Blackman and Ritchie, 2008).

Ou, Wong, and Huang (2021) identified 3 stages of a crisis that are analyzed by placing CSR at the center stage (see Fig. 1). Each stage was characterized by several key elements. Stage 1 was characterized by a weakening of organizational model and practice, which had led to reduced work performance.

Stage 2 brought a reduction in the demand for restaurant services. The main actions focused on employees and the community. In stage 3, during the climax of the crisis, the entire economy was virtually at a standstill. An enormous pressure was on the shoulders of small businesses and the main actions were in the direction of helping farmers because of their importance in the supply chain. Seen as a timely process, this figure shows the relationship between restaurant chains and different stakeholders in various phases of the crisis.

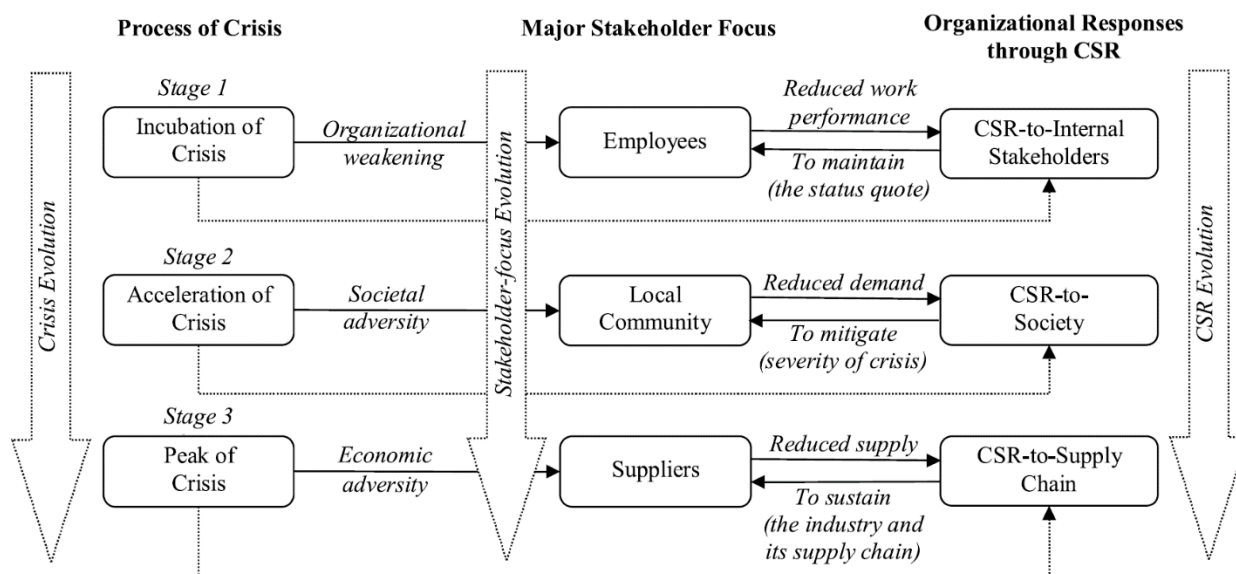


Fig. no. 1. Evolution of the Organizational Social Response via CSR

Source: Ou, J., Wong, I.A. & Huang, G.I. (2021)

The impact of COVID-19 on hotels and restaurants was estimated to be high with a value of 74% for the risk of losing job (Chinn, Klier and Tesfu, 2020). At the European Union level, there are 8.4 million employees in this sector. Before COVID-19 in Romania in HORECA industry there were 40000 businesses, with 400.000 employees and a 5 billion EUR turnover. The HORECA sector contribution to GDP is estimated at 5.07%: 3.42% direct impact, 0.91% indirect impact and 0.74% induced impact. 2020 brought for the HORECA sector a decline of 70% in turnover and suspension of activity in the case of more than 40% of operators (Economica, 2020).

Lockdown and various restrictive measures disrupted supply, production, sales, and consumption. The financial implications are important. The loss of revenues meant that restaurants had to take several actions (Ding et al., 2020). Solid past cash flow and profitability were seen as signals that businesses defeat the present challenges (Song, Yeon, and Lee, 2021). The first responses were in the area of cutting costs and seeking support (Thorgren and Williams, 2020; Kuckertz et al., 2020). Second, restaurants took measures in and moved to takeaway services (Ioannides and Gyimóthy, 2020). Others simply closed their business waiting for the storm to pass (The Chef's Garden, 2020) or used the time to refine the menu (Choo, 2020).

A study (NRA, 2020), conducted by the National Restaurant Association of America between 10 and 16 April 2020 among 6,500 restaurant operators, showed that the most affected were fine-dining restaurants, bars, and taverns. These types of units, together with family and casual dining, promote close personal contact – favorable for COVID-19 spread. The immediate action was the job layoffs. Fine dining, taverns and bars reduced staff by 80% compared to 60% in the case of quick service and casual dining places that benefit more from the take-away or delivery option.

During 2020, some general measures were adopted and adapted by governments in several sectors. These are presented in the following paragraph. There was a reduction in capacity and in business due to the decrease in people that can dine at any given time. New hygiene measures were imposed among employees and patrons that lead to an increase in operating costs due to the need to buy sanitizers or provide health training.

No contact regulations and society requirements translated into QR machines, electronic menus, and contactless payment, for example. HORECA businesses were helped by governments, generally, by some measures like: tax reduction, postponement of tax payment, unemployment benefits, and financial aid.

2.2 *New business models and innovation in HORECA*

Moving to a narrower point of view, many businesses and entrepreneurs overcome the challenges of last year, providing inspiring insight into the HORECA resilience and the ability of HORECA to adapt. Askew (2020) considers that the most significant impact in the short to medium term will come from the changes taken by entrepreneurs in the recovery period. In this situation, the ability to adapt through innovation is a key element to future success.

In tourism, innovation is anything that differs from business as usual or represents a discontinuance of previous practice in some sense for the innovating firm” (Hjalager, 2010). Innovation can occur in the form of service, marketing, process, product, or managerial. Compared to other sectors which can provide radical innovation, in tourism we are having incremental innovations of products and services (Pikkemaat and Peters, 2006).

Innovation in business models is temporarily adopted by individual firms in order to maintain liquidity. Initiated as a response to a crisis, innovation can have long-term implications because a crisis can open new perspectives and profit potentials for firms that embrace the new realities (Breier et al., 2021).

To find new potential and business models, several investigations were done. Björklund et al. (2020) investigated how packaged food and beverage entrepreneurs in Finland used COVID-19 to develop and capture new value. Collaboration and prosocial assistance were important components. New business models have adapted to new realities as a result of new collaborations, operations, and products.

For a few months, while restaurants and bars were closed for business, home delivery and takeaway were the standard. This scenario prompted numerous modifications in operating methods and customer relationships. It was a chance to balance cash flow and be present on the market by adopting this strategy. According to a study of 623 German restaurant owners and managers (Neise, Verfürth, and Franz, 2021), delivery and takeaway services, property ownership, and owner age all boost the chance of the business's resilience.

The option of takeaway and delivery raised new problems regarding plating, temperature, taste, service, and costs, as most of the orders are delivered to external mobile applications. To overcome these problems, some restaurants came up with different solutions. For plating, an instruction manual was provided to customers to rearrange and complete meals at home (Digby, 2020). Do-it-yourself kits were adopted by more and more restaurants. For service, the Saint Pierre restaurant used their own waiters, dressed in suits, to deliver orders. The chef himself greets dinners through a video conference (Loh, 2020).

Home delivery and takeaway simplified the menu with consequences in the kitchen. New items that can be prepared with minimal waste and ensure volume, high yield, and optimal contribution margin were introduced in the menu. The kitchen station became more production-focused than service-focused. Front-of-the-house employees started to take orders over the phone, organize preorders, and deliver. The own delivery option was raised due to high fees charged by delivery platforms, 20% to 35%. Restaurants with low margins imposed a minimum value for each order, and a new category of variable costs appeared.

Digitalization was the means by which restaurants survived in the last year. Enabled communication, home delivery, ordering, and social separation. It can be considered a key element in the HORECA response to COVID-19. The digitalization of the business model has a two-way impact: in internal managerial processes and external in communication with customers (Shtal et al., 2021, Clark et al., 2020, Pyanikova et. al., 2020). As seen before, digitalization can be used to improve the customer experience (Aissa, 2019).

The future is still under a sky of uncertainty due to the frequent changes in restrictions. No one knows what will happen; If we will face a new wave of COVID-19 cases or due to vaccination, humanity will end this pandemic. These are challenging times that require attention, flexibility, and weighed decisions. Low business times should be seen as time to rethink business and prepare for the future.

3. Methodology

The purpose of this article is to look at the changes that have happened, as well as the restaurant industry's ability to adapt to the current, ever-changing situation which was the normal situation for HORECA Industry from March 2020 to summer 2021.

For a few months, while restaurants and bars were closed for business, home delivery and takeaway were the standard. This scenario prompted numerous modifications in operating methods and customer relationships. It was a chance to balance cash flow and be present on the market by adopting this strategy. According to a study of 623 German restaurant owners and managers (Neise, Verfürth, and Franz, 2021), delivery and takeaway services, property ownership, and owner age all boost the chance of the business's resilience.

Qualitative research has been realized based on a semi-structured interview with managers / owners of several restaurants throughout Romania: in Constanta Ciorbelle – CT), Galati (Ca-Jou – GL), Suceava (Marrone – SV1 and Padrino – SV2) and Timișoara (Gloria - TM). The interviews have been conducted between May and June 2021.

To take the interviews, a basic structure with seven points was developed (see Table nr. 1). Some of these points had some helpful questions in order to offer guidance during the interview. The main purpose was the observation of the whole business: a short business description, relations with suppliers, back-office activities, front-office activities, guest relations, positive aspects (if any), and future perspectives.

Table no. 1 Methodology of the interviews

	CT	GL	SV1	SV2	TM
Respondent	Owner	Manager	Owner	Owner	Manager and Executive Chef
Type of interview	Face to face	Zoom	Phone	Face to face	Phone
Questions send in advance	Yes	Yes	Yes	Yes	Yes

Source: Authors processing

The first qualitative interviews revealed a complicated and fragmented area of research that needed to be supplemented by the visual WordCloud representation. This was a source that provided enough information to comprehend and confirm the findings.

The research that was conducted about the impact of COVID-19 in the HORECA sector, investigating several opinions and ideas that will start new topics of discussion. An essential part consisted in inquiring about the most important components of running a business during the pandemic and evaluating the results.

4. Results

The main aspects about leading a business during the pandemic were revealed. The responses were investigated using a Word Cloud (a visual representation of words which highlights popular words and phrases based on frequency and relevance). This type of information is provided in the Annex.

The main results show a prominence of **Relations with suppliers** (on the left, with pink), **Sales fell** (on the right, with yellow), and **Pandemic imposed** (on the bottom, with white).

The most frequent aspects that our respondents mentioned for **relations with suppliers** were:

"The pandemic had negative effects, especially in the field of hospitality, but we managed to maintain relationships with suppliers in the sense that they, although affected, adapted to our needs (CT, GL).

"Suppliers have adapted to the new requirements of delivering goods from one day to another. Payment terms have been made on time, rarely delayed by 1-2 days." (SV)

'The suppliers were more flexible' (TM)

For the second item with high visual representation - sales fell, the respondents mention that *consumption of products, respectively sales decreased by 50%* (TM, CT, SV2), by 70% (GL). Other respondent mentioned that they closed the restaurant and the terrace, keeping only the delivery (TM).

For the third main item that can be observed in Word cloud representation "**Pandemic imposed**", the respondents mention:

"Regarding the" back office "department, we have considerably reduced the expenses, a large part of the staff went into technical unemployment, the work schedule has been modified (reduced) according to the rules imposed by the pandemic, and we paid more attention to the" delivery "section with all the measures imposed by the pandemic (permanent mask, disposable gloves, disinfected) (SV2)

We implemented all sanitary regulations (gloves and masks for employees, hourly disinfectant) (SV2)

Huge expenses with disinfectant, gloves, electronic thermometers (CT)

Regarding the relationship with suppliers, the vast majority said that they maintained relationships with them, adapting to the new regulations that appeared along the way. Suppliers were more flexible, responded affirmatively to adopt new solutions, and in terms of payment terms, they were made on time, rarely delayed by up to 1-2 days.

From an operational perspective, on the one hand, business managers said that they were affected by the restrictions imposed. They took drastic measures with respect to the staff, the latter entering technical unemployment. On the other hand, costs have been minimized as much as possible, as revenues have been reduced by up to 50% -70%. Changes have also been implemented in the "front office" area. All operators have imposed sanitary protection from the entrance. They claim to have promoted the use of protective masks, disposable gloves, and disinfectant, as well as the use of disinfectant. Furthermore, some of them claim that they have focused on new distribution channels such as online promotion and sales. In terms of prices, some managers have applied discounts, changed the menu, focused more on the Home Delivery side, or even promoted more online.

Customers did not lose interest but became more reluctant, wanting a greater distance, which was not favorable for the participating operators. Referring to different target markets, we came to the conclusion that many operators have tried to keep their loyal customers and that following the pandemic situation, this aspect has not changed. All respondents claim that they did their best not to neglect their guests and that they successfully adapted to the restrictions and regulations. Regarding the positive aspects of this whole period, everyone mentioned that they did not exist, but it was a good attempt to find out if they can cope with a new unexpected situation, especially since they have discovered that they can operate in unfavorable situations. Although the pandemic has not ended (each country still has some minor restrictions), Romanian restaurant operators saw a positive development and remain optimistic in the future, noting that COVID-19 has left deep marks on their business and will take some time to return to normal.

Conclusions

Obviously, the HORECA industry was perhaps the most affected by the health crisis of these years and only those entities that managed to adapt to those major challenges resisted. Resilience was supported by all factors involved in the chain:

- Owners - who knew and had the ability to recalibrate their expectations regarding businesses in this industry and even to support negative results from other sources;
- Managers - who have shown an appetite for innovation, have managed to create and implement crisis resilience plans.
- Suppliers, those who understood the deep crisis and readjusted the conditions of collaboration with restaurants and hotels that are part of their portfolio.
- Employees who accepted less advantageous conditions from a financial point of view and understood the difficult situation of the employer.
- Consumers - those who have accepted the changes, the change in the delivery of services. In most cases, they consciously supported these changes, even if they proved to be to their detriment. This

acceptance shows an education, even a maturity of the tourist, of the consumer of HORECA services in Romania.

The findings indicated a number of intriguing approaches that comparable organizations may use in the expectation of brighter times: delivery, online promotion, fixed-price daily menu. We can conclude that the national restaurant operators moved in line with their colleagues from other countries. In addition to the way in which each part of the business chain has proven to adapt to the new conditions, we consider that the stable, strong, reliable relationship created over time between all these entities of the business circuit represented a decisive element in maintaining the market in these moments of crisis.

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Annex

To conduct this study, we polled business leaders about the most important aspects of running a company during a pandemic and analyzed the responses using a Word Cloud (a graphic representation of words that highlights popular words and phrases based on frequency and relevance), as shown in the figure below. Relationships with suppliers (on the left, with pink), Sales (on the right, with yellow), and Pandemic (on the right, with yellow) are the primary findings (on the bottom, with white).



Fig. no. 1. WordCloud Visual Representation
 Source: Authors processing own representation