

Demonetization: A viewpoint of the restaurant industry

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Abstract

“Demonetization” was a historic decision taken by the Indian government to counter the parallel economy of “Back Money” prevalent in the country. Although there were mixed reactions from public, the most important and prominent observation was that the citizens were determined and stood by the government in its decision to purify the Indian economy. In view of characteristics of the restaurant industry to deal in cash, it was natural to see a great impact on the industry by the decision since the situation post demonetization was a complete contrast where there was a severe cash crunch and everyone wanted to preserve their cash holdings for priority purchases.

This study aims at viewing the decision of demonetization in the eyes of the restaurant industry and has considered the perceptions of the restaurant owners and customers on various aspects of the topic.

The findings of his research suggests that the quality of restaurant food & service is not deteriorated after the decision and Restaurants have not been forced to shut down either temporarily or permanently due to the decision. “Banks not tendering sufficient cash on a daily basis” and “Reduced cash sale” are the major challenge faced by restaurant owners. “Looking for alternative restaurants who accept other mode of payments” and “Willingly shift to cash less payment modes” were the major changes observed in customer behavior.

Keywords: “Demonetization”, “Restaurants”

1. Introduction

“Demonetization” was a historic decision taken by the Indian government to counter the parallel economy of “Back Money” prevalent in the country. It was primarily aimed at regulating the economy by withdrawing the existing circulating currency notes of Rs. 500/- and Rs.1000/- and remonetizing the same with new currency of Rs. 2000/- and Rs. 500/-. However, it never looked as simple as this. The demonetization and subsequent remonetization process was very challenging for the Government of India, Reserve Bank of India and most importantly, the citizens of India. It has been more than 2 months of the decision been taken and when we look back, it was not less than a crisis situation in the country. The entire country was discussing and critically analyzing the decision. The citizens were in a confused state with multiple and at times contradictory directives issued by the RBI. Moreover, the political atmosphere in the country was at its peak of anxiety and almost all political parties were drawing their own inferences on the decision which not only added to the confusion in general public but also created a panic situation amongst the citizens. Although there were mixed reactions from public, the most important and prominent observation was that the citizens were determined and stood by the government in its decision to purify the Indian economy.

Restaurant Industry, is one of the most important part of everyone's routine life at least in the urban population where eating out on regular basis is very common. Moreover, restaurant business was known for its counter sales in hard cash. Although, the option of digital payment through credit and debit cards was available, very few payment were done through this mode since payment through cash was more convenient and was perceived to be the safest option. However, the situation post demonetization was a complete contrast

where there was a severe cash crunch and everyone wanted to preserve their cash holdings for priority purchases. In view of this characteristics of the restaurant industry, it was natural to see a great impact on the industry by the decision.

This study aims at viewing the decision of demonetization in the eyes of the restaurant industry and has considered the perceptions of the restaurant owners and customers on various aspects of the topic.

2. Literature Review

- Shirish Deshpande (2017) ^[1] in an article on “What Modi's Demonetization Means for the Indian Economy” in the website “themarketmogul.com” analyzed the economic impact of the decision, most banks have been forced to recall retired employees to deal with the heavy workload. He had explained the effect of demonetization on luxury good and festival period. He had stated that demonetization might result in renewed demand for cash equivalents, such as gold, silver and precious stones.
- Karikalan Nagrajan, (2016) ^[2] publish online article on topic of “India's demonetization drive is affecting access to medical care” The article talk about, The demonetization effect on India's informal economy in terms of payment of agricultural wages, construction labor wages, and payments at small business outlets and shops. The health services have been allegedly denied to patients who lacked valid currencies. Without access to the right forms of currency, limited access to essential and life-saving medicines will likely hit people hard. Services reportedly led to avoidable suffering and mortality, especially in private facilities.
- Martin Patrick, (2016) ^[3] in online research publication “CPPR”, wrote an article on “black money, corruption and

demonetization”, said that every decision will have its merits and demerits. He has analysis black money and Counterfeit Currency in Indian economy. Mr. Patrick said that the problem of counterfeit currency can be addressed at least for a short period, once counterfeit currency is curbed, the intensity and spread of terrorism can be addressed. Demonetisation will not act as a successful strategy for curtailing black money, as the major chunk of black money is invested with financial institutions outside the country. He has also highlighted key episodes of corruption in India right from 1971 till present.

- Ashish Kumar Tripathi, (2016) ^[4] publish research paper on “Demonetization-Challenges for Rural India”, defined the definition of demonetization. Further he had explained various reasons why governments taken up the step of withdrawal of legal tender of 500 and 1000 currency note. He had highlighted the problems face by common person, farmers and family who have marriage functions of rural area. He had mentioned that government focused on cash less transactions and E-money transfers with the use of Internet banking but it is really difficult for the people of rural areas.
- Mr Sharif Mohd, (2016) ^[5] publish his paper on “Demonetization Of Currency Notes: Significance And Challenges”. Mr Sharif had stated the impact of the announcement which prime minister did it on 7th November. He has explained the need of this move by government of India and the steps they took before the announcement. Mr Sharif list down the positive, negative and future challenge of this announcement. The advantages of this move, though, will be felt only in the long-term. While formal modes of payments such as debit and credit cards, net-banking and digital wallets should get a boost.
- Dr. Partap Singh and Virender Singh, (2016) ^[6] in the paper name is “impact of demonetization on Indian economy” they had explained the Effect on Various Economic Entities in there paper such as GDP, bank, online transaction and various alternative mode of payments. Further they had compared short term and long term implication of the decision. They had also share the experiences of other countries such as Russia, North Korea, Zaire, Myanmar, Ghana, and Nigeria.
- Sherline T. I, (2016) ^[7] publish a paper on “demonetization as a prelude to complete financial inclusion “and highlighted important of quality financial services in rural areas for the growth of the economy as this will enable the large number of rural households to fund the growth of their livelihoods. According to the writer opinion government of India and RBI took the decision because after the independence still high population of India remained unbanked. Majority of population lived in rural areas and they are not literate. The paper focus on various initiatives taken by Government and RBI and also the latest attempt of demonetization and it’s expecting impact on various sectors.
- Liza Jain, (2016) ^[8] talked about black money issue in India, she said black money is continuously expanded in India and people are misuse of public fund. It leads to the misdirection of precious national resources, worsen the income distribution, corrupted our political system,

transfer the financial resources of foreign countries such as Swiss Banks, strengthen the brokers of law, restrict to formulate right policies and actual strength of the country and most importantly it discourage the honest practices in each and every section of social and political life.

- Shweta Mehta, Kruti Patel And Krupa Mehta, (2016) ^[9] publish paper on topic of “demonetization: shifting gears from physical cash to digital cash” that aimed to study the advantages and disadvantages of demonetization and its impact on Indian banking sector. In India physical cash still widely used throughout. The paper has explained the alternatives of physical cash payments such as online bank transfer, e- clearing, e- KYC, digital locker and Unified Payment Interface.
- Dr. Chinara Mitali and Parida Jayanta, (2016) ^[10] publish paper on topic of “Synthesis of Black Money and Voluntary Disclosure of Income Schemes (VDIS) in India-New Plans and Perspectives” the paper aims at designing a model approach of curative measures to tackle black money menace in India with a view to minimize the further creation of black money and bring back funds lying abroad for productive use in India.

3. Objectives of the Study

1. This study the impact of demonetization on restaurant operations.
2. To analyze the changing behavior of restaurant guests post demonetization.
3. To identify the customers’ perception on demonetization.

4. Limitations of the Study

1. The study is conducted in the current scenario and the opinions, perception and expectations of the respondents may differ with time.
2. The study does not differentiate respondents on basis of their demographic factors which may have an influence of their perception thereby identifying scope for further research.

5. Research Methodology

The data required for the research was collected using the following techniques:

- **Personal Interviews:** The researcher conducted personal interviews with owners, managers and guests of popular restaurants in Pune city to get an insight on the problem under study.
- **Questionnaire:** A questionnaire bearing straight forward and relevant questions was drafted and handed over to the sample to obtain their responses.

6. Discussions, Findings & Conclusions

6.1 Discussions

6.1.1 Impact of demonetization on the restaurant operations

6.1.1.1 Impact on Labor: Restaurant industry is characterized by high labor turnover and majority of the labor is in the lower economic bracket and employed on daily wages. Attrition was always a concern for the industry and the decision of demonetization aggravated the problem since the restaurant owners were facing cash crunch and were not in the position to pay their employees in cash which was the prevailing situation

in the industry. The employees were used to get their payments is cash and thus there was a great unrest amongst them.

6.1.1.2 Impact on purchasing process: Restaurants deals with purchase of raw material in form of grocery, vegetables and fruits. The vendors dealing in such commodities belong to the unorganized sector where trading is done in cash. Demonetization had a severe impact on these tradings since there was resistance from the vendors to change from the conventional payment mode of cash and were not equipped for other digital payment options. This led to crashing of prices of commodities but in spite of this, the restaurants could not take advantage of the situation since they had limited cash at their disposal.

6.1.1.3 Impact on general operations: There was already a manpower crisis and with the addition of shortfall of quality ingredients the operations had to face the consequences where the management was forced to compromise on the quality quiet unwillingly and helplessly. Moreover, there was complete uncertainty in the business which led to reduction in sales and the profit margins of the business.

6.1.1.4 Impact on customer relations: The restaurant operations was trapped in a vicious circle leading to decline in customer satisfaction. The customers were unwilling to pay in cash thereby reduction in cash sale. Lack of technology and equipment for alternative payment options made transactions very difficult leading to mounting irritation of owners and the customers. In some cases the owners were forced to accept old currency notes from their customers to attract more business but the problem of tendering change was also crucial.

6.1.2 Impact of demonetization on the costumer behavior

6.1.2.1 Reduced frequency of restaurant visits due to lack of cash: Cash crunch was faced by every citizen. Moreover, in the prevailing confusion and panic situation, people were reluctant to use the cash they held for non-priority tasks. Thus

a steady decline in restaurant sale was much obvious and visible since the frequency of restaurant visitors reduced drastically.

6.1.2.2 Looking for alternative restaurants who accept other mode of payments: Although the frequency of visiting restaurants had reduced, people were on the lookout of restaurants who either accepted old currency notes or who accepted alternate modes of payments so that the problem of cash crunch can be countered.

6.1.2.3 Willingly shift to cash less payment modes: Almost unknowing and subconsciously everybody was shifting to a digital economy. The vendors faced difficulty in selling their products in cash and soon realized that they need to accept payments in other modes at the same time, people also were getting adapted to cashless economy.

6.1.2.4 Resistance due to threats about cyber-crimes in digital payment modes: In midst of this shift to digital economy, there prevailed the threat of cybercrimes and also the fear for the unknown. Thus some resistance amongst the citizen was observed due to this threat.

6.1.2.5 Lack of resources to shift to digital payments: Although everyone was geared up for the shift, the existing resources available with the vendors and consumers were limited. Thus the lack of resources like POS machines, internet connectivity, smart phones, digital payment applications, credit cards etc created a great hurdle in the shift to cashless economy.

6.1.2.6 Increase in irritation due to the decision: Prevailing situation of confusion, panic, political anxiety led to increased irritation amongst general public. This irritation was sometimes perceived as irritation towards the decision of demonetization.

6.2 Findings

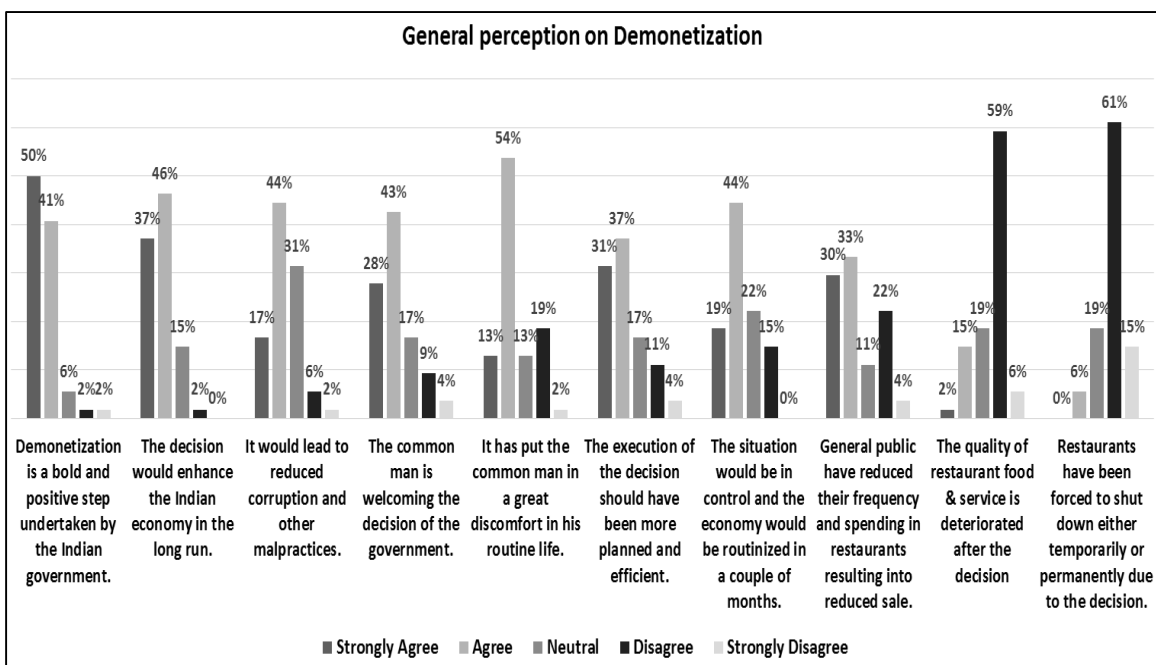


Fig 1

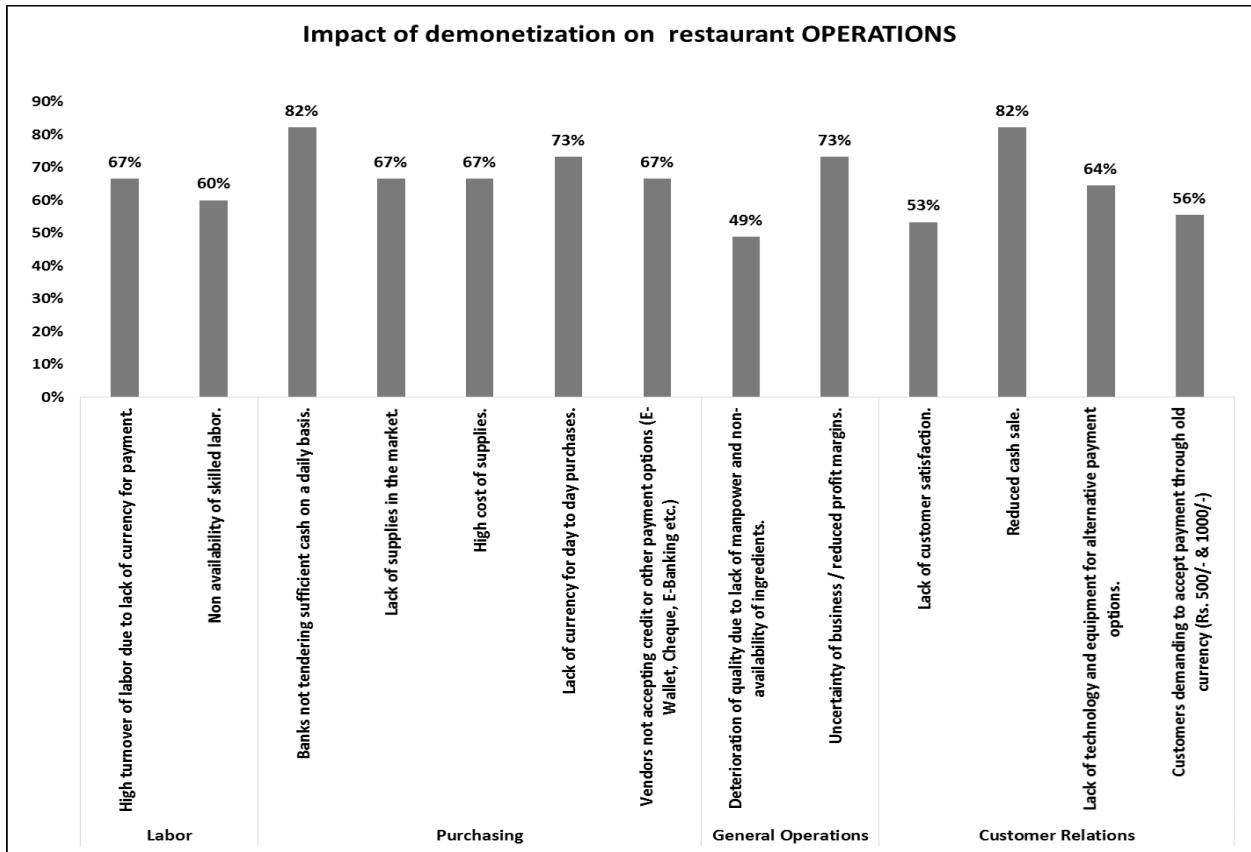


Fig 2

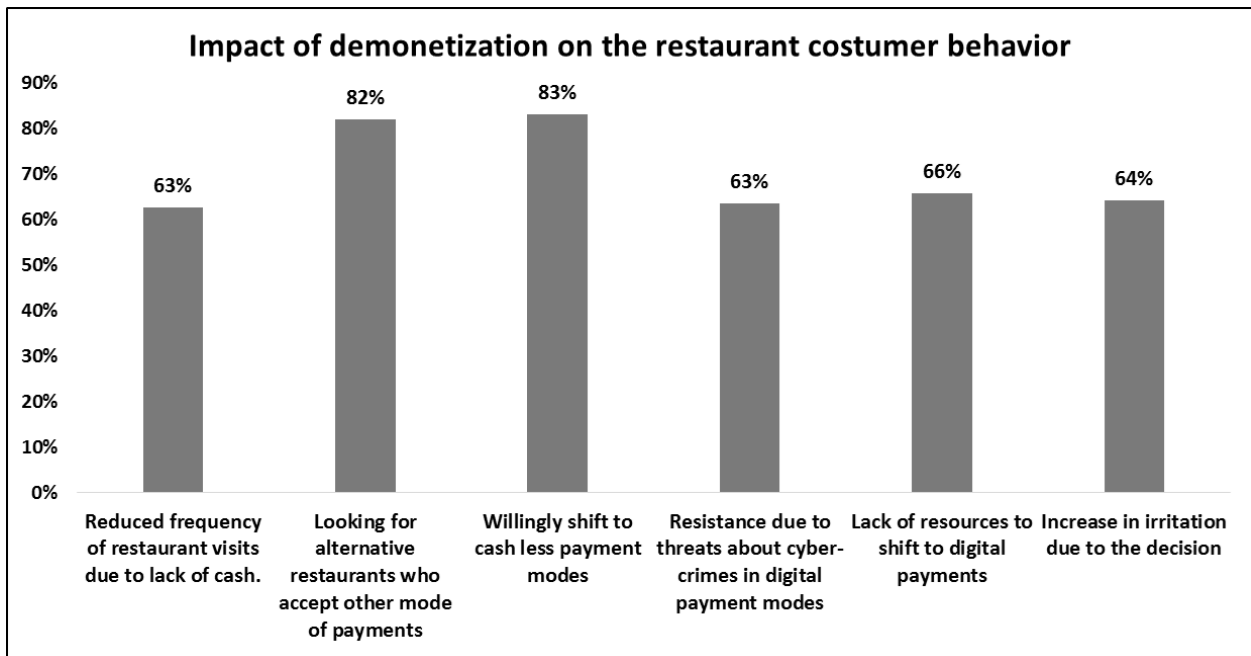


Fig 3

6.3 Conclusions

The findings of the research can be concluded as under:

1. Demonetization is a bold and positive step undertaken by the Indian government.
2. The situation would enhance the Indian economy in the long run.
3. The common man is welcoming the decision of the government.

4. It a put the common man in a great discomfort in his routine life.
5. The execution of the decision should have been more planned and efficient.
6. The situation would be in control and the economy would be routinized in a couple of months.
7. The quality of restaurant food & service is not deteriorated after the decision

8. Restaurants have not been forced to shut down either temporarily or permanently due to the decision.
9. “Banks not tendering sufficient cash on a daily basis” and “Reduced cash sale” was the major challenge faced by restaurant owners.
10. “Looking for alternative restaurants who accept other mode of payments” and “Willingly shift to cash less payment modes” were the major changes observed in customer behavior.

7. Suggestions & Recommendations

Based on the responses received by the owners and customers of sample restaurants, on the impact of demonetization, the following suggestions & recommendations can be made:

1. Although, the decision was welcomed by the general public, the government should have planned it well and should have had a strategic implementation policy in place.
2. The citizens of India should consciously try to move from cash economy to digital economy by adopting cashless payment options.
3. The government should motivate digital payment options by providing discounts in tax and other elements of costs.
4. The government should provide sufficient infrastructure and cyber security to ensure smooth functioning of digital economy.

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