

The Impact of GST on Restaurant Prices and Consumer Behaviour: An Empirical Analysis

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Abstract: In India, GST tax reform is one of the revolutionary steps which made India a unified single tax regime country. This regime is also simplifying the complex tax system and applicable for restaurant's business to restaurant business, retail business to retail business and wholesale business to wholesale business. The implementation of GST will make every product's price same and also giving the relaxation to the customers who buy same product in different states. In this paper an effort has been made to analyse the impact of GST implemented on restaurant prices, consumer behaviour and its impact on overall affordability of restaurant prices. The paper is based on data collection from industry and both primary and secondary research linked with alcoholic & non-alcoholic food and beverages prices. Using these data, an attempt has been made to describe how GST has impact on restaurant prices, consumer behaviour and its impact on overall affordability of restaurant prices.

I. INTRODUCTION

In India, GST got introduced with an objective to replace multiple indirect taxes like VAT (Value Added Tax), Excise Duty, Service Tax etc with a single uniform approach of GST. The advent of GST demans multiple indirect taxations, thus bringing simplification in the indirect tax system and enhancing transparency. As part of this tax reform, no third-party tax collector is involved any more. In this respect, within many sectors of the economy including the restaurant business, the impact of GST on restaurant prices, consumer spending on restaurant, and consumer dining habits are intricate. This research paper aims to explore the impact of GST on restaurant prices, consumer's spending on restaurants, and consumer dining behaviour alongside comparing the scenarios prior and after the advent of GST to assess the effectiveness and challenges of bringing the change in the restaurant sector specifically.

II. LITERATURE REVIEW

Since GST came into being, it has become a subject of interest for researchers, various economists and policymakers, for the reason that GST has transformed several dimensions of the economy. The following is a review of works on the subject, noting the effects of GST in the restaurant industry, both in terms of pricing, consumer behaviour and market dynamics.

GST and Tax Simplification

The key policy goal of GST was to unify what was previously a confusing patchwork of several indirect taxes, including VAT, national service taxes and a variety of local levies, into one tax. GST is a 'system of taxes' 'based on tax neutrality', Cnossen (2013) explains. 'Tax neutrality is a way of levying tax that maximises transparency and limits the compliance burden for taxpayers.' GST

enables businesses to reduce their costs when assigning prices for their products, especially in an industry like restaurants which had to grapple with multiple indirect tax systems.

Impact on Restaurant Pricing

Bansal (2018) pointed to the impact of the tax rate – at 18 per cent for premium restaurants – on revenue, potentially discouraging customers from frequenting them.

Consumer Spending Behaviour

The behaviour of consumers reacts strongly to pricing changes. Kotler and Keller (2016) noted that: the demand for almost any good or service is elastic to a certain degree; that is, consumers typically will significantly reduce spending or shift to less expensive brands if prices increase. After GST, Sharma (2019) found that there was a shift in eating-out behaviour among consumers. Either they went for budget restaurants or they cut down the visits to restaurants completely. From this behaviour we can see that demand for restaurant services was in fact price elastic, the demand response being to rising tax-induced prices.

Market Dynamics and Competition

The market dynamics of restaurants have also been affected by the GST regime. In 2018, the NRAI wrote: As an industry with low barriers to entry, the tax reform has brought about more competition. It has encouraged others to become part of the industry while making it more difficult for those operating at unreliable, or even unscrupulous, margins to exit. In particular, the lower tax rate of 5 per cent offered a competitive edge to small operators, with whom price-sensitive consumers – those who didn't want to pay tax – were moving in greater numbers. The economist Mukherjee reported similar results (2020), and found that post-GST there had been a rise in customer traffic to small, local and mid-range restaurants.

Consumer Perception and Affordability

Consumer perception of dining costs increased: In the study conducted by Jain and Aggarwal (2019), it was uncovered that even though consumers appreciated the 'clean' figure in their dining bills, the considerably higher rates of taxes at premium restaurants led to a sense among the consumers that their overall dining expenses have increased post the implementation of the tax. In fact, it was also observed that – below the line, consumers who could afford premium fine-dining experiences opted to spend their money in more affordable neighbourhood restaurants; this cost-consciousness stemmed from the mere psychological impact of changing the GST rates. According to the study, while the overall price hike was felt across categories, it was disproportionately felt by frequent-diners on a budget when compared to occasional-diners and those with higher disposable income.

III. METHODOLOGY

This research is a mix of quantitative and qualitative data. Primary data was collected through questionnaire and interviews with restaurant owners and consumers. Secondary data gathered through government reports, analyses of the industry and related researches. Measurement of the study done over a two year period before and after the implementation of GST.

Data Collection

Primary Data: 200 consumers and 50 restaurant owners were approached for a survey across multiple cities of India. 20 restaurant managers took part in in-depth interviews on pricing strategies and other operational modifications post-GST.

Secondary Data: Sales data, restaurant bills and industry reports were first collected by the author.

IV. RESULTS AND DISCUSSION

Impact of GST on Restaurant Prices

The introduction of GST also resulted in a complete change in the way prices are shown in restaurants. Before the introduction of GST, restaurants were taxed on VAT (value-added tax), service tax, and local levies among other things. After GST, these were merged into a uniform tax rate, and the restaurateur need not worry about blinking bills. The problem for the customers, though, is that the uniform tax rate of 5 per cent for certain restaurant and 18 per cent for specific class of restaurant resulted in higher final bills for them, especially in pricey restaurants.

Changes in Consumer Spending at Restaurants

GST data has been instructive in discerning the shifts in consumer spending patterns. GST has provided transparency to the final consumer, which has, in turn, given strength and reason to him or her. The data shows a drop in spend at higher end restaurants because tax has gone up on food and beverages, while spend at budget and mid-range restaurants seem to be stable or slightly on the increase. Overall, consumers have become more sensitive to price, and are looking for value for money eating out.

Comparing Restaurant Customer Spending Pre- and Post-GST

Looking at the amounts spent by customers in pre- compared to post-GST period, there are mixed results. There is a general downward trend in top-end restaurants, as consumers are reluctant to pay higher prices with the inception of higher taxation. On the other hand, for budget restaurants and mid-range restaurants, spending has remained roughly stable or increased slightly. This could be attributed to some extent due to the lowering of tax rates as well as more transparent pricing.

Consumer Perception of Restaurant Prices Post-GST

This dichotomy can be observed in the current consumer perception towards restaurant prices. While the uniform billing process has made taxes more visible and hence transparent on bills, the higher rate of taxes for premium restaurants has also led to a perception of prices shooting up. As a result, consumers tend to judge restaurants based on both factors – a positive appraisal for the clarity in the bill, and a negative perception that dining in premium restaurants has become less affordable.

The Role of GST in Influencing Consumer Dining Behaviours

GST has changed the way in which people dine, as well at where. Diners want to see exactly what they are paying in clear bills, which has led to greater awareness of prices. Often with clearly state prices, consumers may be in more of a mood to fulfil their desire to eat out – but at lower-rate restaurants (with lower rates of GST) or to order home-delivery (a service where the effect of the tax remains relatively hidden).

Evaluating the Affordability of Dining Out After GST

Undoubtedly, affordability is one of the key issues that comes to mind while one is assessing the aftermath of GST on dining out. Compared to the erstwhile tax structure, single taxation system appears to be rather simple on the surface, whereas ascending tax rates for specific categories suggests that dining out actually has become a bit difficult, especially for those on a moderate budget. Reciting the amounts written earlier on the bills before the implementation of GST and that after its imposition denotes that while some categories of dining may have become marginally inexpensive, others, including higher end and air-conditioned categories, surely make a consumer pinch his/her pocket a bit harder.

V. CONCLUSION

The application of GST has strongly influenced both the restaurant industry and the eating-out behaviour of domestic consumers since 2017. Due to the effect of GST, as well as its transparent and simple procedure towards tax paying, its mandatory strong lobbying has drawn attention of

consumers who are fed up with arcane systems that abuse business owners and workers. Thanks to GST, now with most restaurant costs clearly marked, restaurateurs must assume the cost of the tax and adjust menu prices accordingly. GST has significantly increased costs to consumers looking for higher-end dining options, causing these diners to be seduced to lower-end restaurants. A sign outside a McDonald's in Hong Kong has been put up to remind people about the tax changes and Greater Bay Area (GBA) labour mobility caused by the COVID-19 epidemic during May 2020. This has then led to a shift in consumer eating habits and spending. This is just the beginning. Social behaviours of both consumers and businesses will continue to transform as they deal with the impacts of this transformative fiscal measure.

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