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Albert WY Leow
Faculty of Business,
Hospitality and Humanities
NILAI University, Negri
Sembilan, Malaysia

COVID-19's impacts and fallouts on the sustainability of Malaysia's restaurant businesses

Albert WY Leow

Abstract

The COVID-19 affected the global economy widely, especially the economic sector in which the local food and industry (F&B) took a beating from the pandemic's impact. The Malaysian F&B industry had to explore other ways to sustain their business, particularly through Information Technology (IT). The research methodology adopted in this journal is quantitative research which has uncovered various business models adopted by the local F&B industry in sustaining their survivals. Among the common business models are on-line delivery systems, e-wallets, and on-line food promotions with discounted retail pricings. The F&B industry's timely response in adopting various IT apps have helped them greatly in overcoming the pandemic's unforeseen challenges.

Keywords: COVID-19, pandemic, restaurant business sustainability, and movement control order (MCO), food and beverage (F&B), small and medium scale enterprises (SME), information technology (IT)

Introduction

Literature Review

COVID-19's Impact on the local Food & Beverage Industry

The COVID-19 pandemic presented an uphill challenge to the local F&B Industry (Telukdarie, Munsamy and Mohlala, 2020) ^[13]. The world has experienced numerous epidemics and pandemics over the last four decades but none of them affected the global economy devastatingly as the pandemic had (Gössling, Scott and Hall, 2020) ^[5]. Figure 1 below indicates the catastrophic decline on Europe and the United States food and beverage industry.

The Food and Beverage Industry was severely affected globally, which resulted in the suspension and closure of business operations, including Malaysia. The industry suffered enormously in terms of finance due to their tight liquidity exposures and small profit margins (Gössling, *et al.*, 2020).

The enforcement of social distancing was the key strategy in containing the spread of the pandemic (Shigihara, 2020) ^[12]. The industry had to face a plethora of problems such as supply chain disruption in sourcing for raw materials, operations safety, retrenchments, recreation of new business models and shorter business hours during the Movement Control Order (MCO). (Telukdarie, *et al.*, 2020) ^[13].

Much of the industry's supply chain were disrupted due to the pandemic, from farm production, food processing, transportation, and warehouse (Deconinck, *et al.*, 2020). Farm produce was affected in output due to the reduced manpower mobility in the planting and harvesting of the produce. This reduced farm production substantially due to the manpower immobility on farms (Deconinck, *et al.*, 2020) ^[4]. Even though some farms were allowed to operate during the MCOs, farm owners had to ensure that social distancing guidelines were always observed by their staff in containing the spread of the deadly virus. Food processing plants such as meat and poultry were gravely affected as most of their operations are manual and intensive in nature as compared to grain handling which is fully automated (Deconinck *et al.*, 2020) ^[4].

The movement of products along the supply chain was affected, which involved bulk (ships), road (trucks) and air transportation during the pandemic. Air cargo was the only sector most affected when it recorded a decline of more than 80% in 2020 as compared to 2019 (Deconinck *et al.*, 2020) ^[4]. Similarly, road transportation was hugely impacted by the pandemic as traveling permit was required for interstate travel in Malaysia during the Movement Control Order. It hampered the delivery of food supplies from the suppliers to the restaurants (Hashim *et al.*, 2021) ^[6].

Corresponding Author:
Albert WY Leow
Faculty of Business,
Hospitality and Humanities
NILAI University, Negri
Sembilan, Malaysia

The logistic sector in international transshipment experienced delays due to border control with less import and export inspection staffs. It crippled highly perishable imported food items such as avocados, as an example,

which are highly sought after by Malaysian restaurants (Brescia, 2021) ^[11].

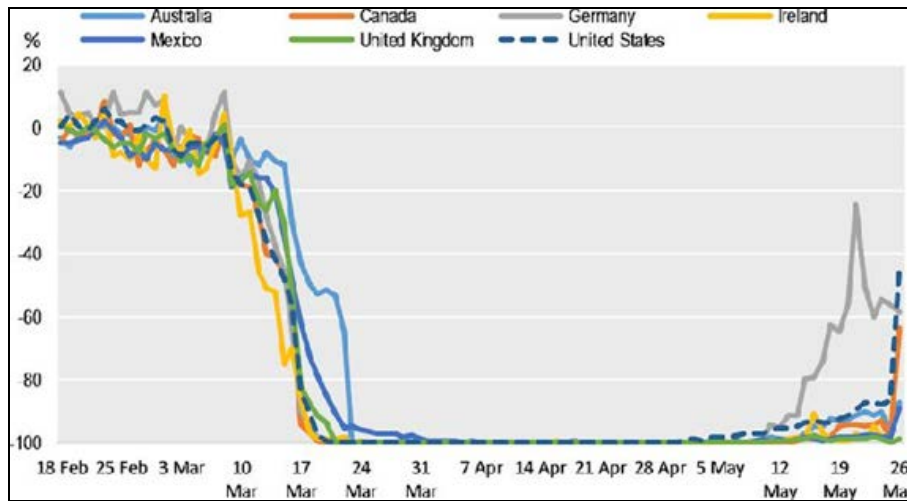


Fig 1: Percentage change in daily restaurant reservation from February 2020 to May 2020 (Deconinck, Avery and Jackson, 2020) ^[4].

Adaptation of new business model as a response to the pandemic

Many local restaurants had to recalibrate human capital requirements towards the new mode of operations during the MCO when the Federal Government gazetted a new standing operation procedure for the F&B industry. The human capital recalibration escalated staffs’ turnover cost and reduced their performance morals (Deconinck *et al.*, 2020) ^[4]. Restaurants and bars had to limit their operation costs to make ends meet by reducing manpower requirements and switching off their chillers to cut down their electricity costs (Hassandarvish, 2020) ^[7].

They have also embraced digital platform, such as electronic payment and food orders, mobile food deliveries and food promotions in meeting their customers’ needs (Deconinck *et al.*, 2020) ^[4]. The various on-line delivery platforms such as Grab Food, Food Panda and Lala move succeeded in enticing consumers through the offers of tempting deals and food vouchers in improving restaurants’ sales (Telukdarie, *et al.*, 2020) ^[13]. Mix and match food combos were created with the aim of enticing customers to spend more, thereby improving the F&B industry’s profitability (Shigihara, 2020) ^[12].

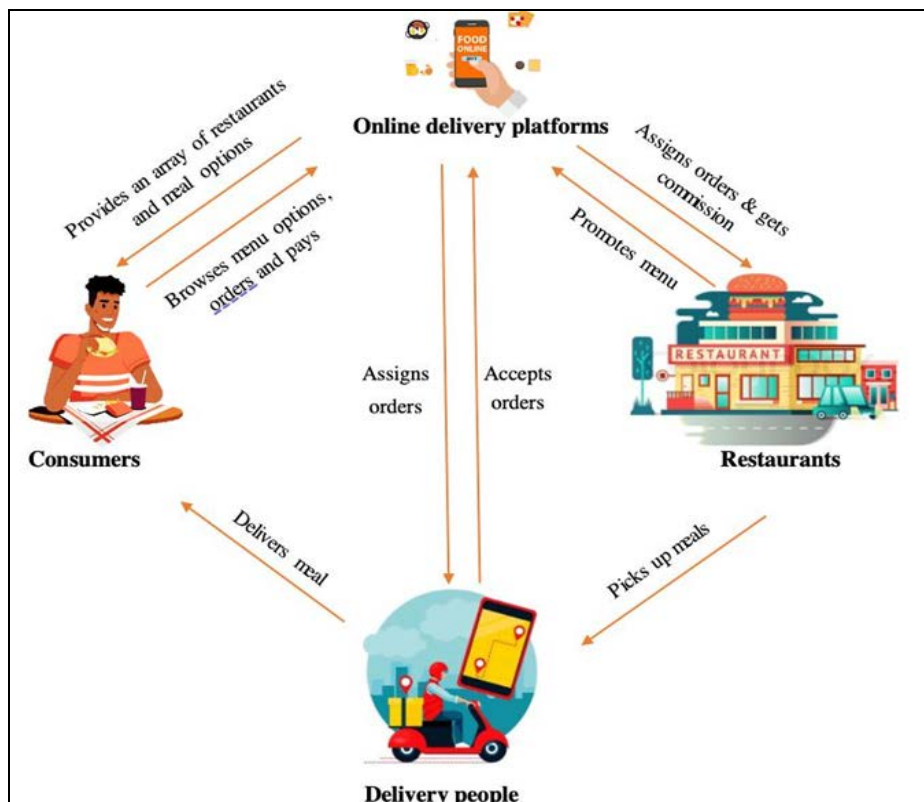


Fig 2: Schematic representation of restaurants’ mode of operation in Malaysia during the COVID-19 pandemic (Li *et al.*, 2020) ^[10].

The diagram above illustrates how an on-line delivery platform such as Grab Food, Food Panda and Lala Move function. Their usage by customers experienced an upsurge during the MCO (Li *et al.*, 2020) ^[10]. This business model was adopted widely and extensively in adapting to the changing demands in meal orders from customers. It is purely a contactless delivery platform adopted by the F&B industry in mitigating the spread of the virus.

Implementation of technology-based strategies

Most F&B outlets advertised their food and beverage menus on their own social media platforms such as Instagram, Facebook, and WhatsApp in encouraging customers to order their meals on-line. Restaurants' income suffered a big drop initially as more people preferred to prepare their own meals at home during the MCO. However, they managed to keep their businesses afloat by providing retail food items such as homemade condiments and marinated meats among others (Gössling *et al.*, 2020) ^[5]. For example, the Butcher's Table and the Euro deli Restaurant were marketing frozen raw and curated products such as bacon and sausages (Lai *et al.*, 2020) ^[10].

Some restaurants went as far as offering retailed groceries to households via online delivering platforms (Lai *et al.*, 2020) ^[10]. Pokok KL, as an example, offload their inventory as groceries by retailing via online delivery platforms (Lin, 2021) ^[11]. Additionally, the Farm Food craft which is a restaurant in Kuala Lumpur provides complimentary 200g of fresh vegetable harvested from their aeroponic farm with a minimum expenditure of RM50.00 by customers. Thus, the local Food and Beverage Industry created a new stream of income via adapting to the needs of the consumers via online delivery (How F&B Businesses Have Adapted to the COVID-19 Pandemic, UMAI Blog, 2021) ^[14].

Most F&B outlets enjoyed comfortable profit margins when customers dropped by personally to pick up their orders. Through food delivery platforms, they charge a commission of between 20% to 35% in the customers final bills (Lai *et al.*, 2020) ^[10]. Restaurants optimized their profit margins through simplified menus and using adaptive menu-items which have longer shelf-life (Lai *et al.*, 2020) ^[10]. Some restaurants have adopted a minimum ordering basis, which encourages consumers to order more items from their menus. This would enhance both the restaurants and online food delivery platforms (Gössling *et al.*, 2020) ^[5].

Other electronic devices which gained popularity as a payment platform for on-line food orders are e-wallet and digital money (Kee *et al.*, 2021) ^[8]. The e-commerce platform adopted by restaurants in Malaysia has shifted their business model to a cashless and contactless mission (Kee *et al.*, 2021) ^[8]. It is obvious that digital technologies had influenced the F&B industry's operations during the MCO in a large scale and assisted the industry in sustaining their businesses.

Repercussions of the implemented operation changes on restaurant in Malaysia

The changes discussed above are some examples which ensured the sustainability of the F&B industry. A diversified source of supply can ensure that the F&B industry, particularly, the restaurants could adapt to the rapid changes when certain raw materials are short-handed during the MCO which caused disruptions in logistics and transportations (Deconinck *et al.*, 2020) ^[4]. Food ingredients

with extended shelf-life has helped restaurants in reducing wastages and such measures can be adopted in the long run in minimizing operation costs (Lai *et al.*, 2020) ^[10].

Research Methodology

Secondary (quantitative) research methodology was used to obtain the relevant information pertaining to the research title. Most of the information were solicited from articles and peer-reviewed journals published in Google Scholar, Pub Med, Academia and Science Direct. Data extracted was carried out using keywords found at the bottom of the abstract. Using information obtained from pre-existing literature on the research title, a comprehensive literature review was conducted to achieve the objectives of this study.

Research Questions

The current research therefore aims to investigate the impacts and repercussions of COVID-19 on the sustainability of restaurants in Malaysia with the following research questions:

- (i) How did restaurants in Malaysia adjust their business model to survive the COVID-19 pandemic?
- (ii) What enabled restaurants to adapt to the changes which were imposed when the MCO was implemented in Malaysia?
- (iii) What are the implications brought about when Malaysian restaurants changed their mode of operation compared to the pre-COVID period?
- (iv) What did bars and restaurants in night clubs do to mitigate the impact of Covid-19 on their businesses during the MCO in Malaysia?

Research Problems

- (i) As the COVID-19 pandemic inflicted a heavy toll on the Malaysian economy, the food and beverage industry has been deeply affected, particularly restaurants, bars, and discotheques. They were identified as one of the riskiest places to contract the deadly virus prompting the local government to ban dine-ins which were also adopted globally.
- (ii) The duration of the pandemic is still unknown till today (as when it will end) and it has resulted both short-term and long-term impacts on the society. Consequently, the financial fragility of SME has been aggravated as local restaurants were severely hit with the MCO implementation.
- (iii) As a ban on international travel was implemented, the tourism and hospitality sector suffered huge losses encompassing restaurants in Malaysia due to the income insecurity that entailed. Malaysian cuisines are amongst the favorite on tourists.
- (iv) Not much of a study has been carried out to investigate the strategies adopted by restaurant owners to navigate the pandemic in Malaysia during the Movement Control Order (MCO) to make ends meet and ensure the business' viability (Lai *et al.*, 2020) ^[10].

Findings

- (i) Restaurants, pubs, food courts and discotheques were identified as the riskiest places to contract the deadly COVID-19 virus, prompting the Malaysian Government to ban dine-ins which were also adopted globally.

- (ii) When will the pandemic ends is still unknown till today as it has impacted negatively on the society both in short and long terms? Therefore, the financial standing of Small and Medium-sized Enterprise (SME) has been aggravated as local restaurants and pubs were severely affected by the MCO.
- (iii) Not only were dine-ins disallowed during the MCO, but the business operation hours were also reduced in addition to reduced seating capacity during the recovery movement control order (Lai *et al.*, 2020) ^[10].
- (iv) The e-commerce platform for restaurants increased their revenues due to the conveniency of the customers ordering food on-line, and at the same time, contactless food delivery system offered safety protection to customers from the virus.
- (v) The usage of non-perishable ingredients, on-line delivery and take-aways using digital technologies for easy payment are a few business model innovations created by the Information Technology Platforms (Lai *et al.*, 2020) ^[10].

Conclusion

The Malaysian Food and Beverage Industry experienced an economic backlash during the two years of lockdown (2020-2021) due to the pandemic. Those who survived the onslaught adopted changes in their business models when the Movement Control Order was enforced. The changes encompassed the use of on-line delivery platform, e-wallets, simplified menus, and the invention of new 'take-away' food packages which are recyclable. These strategies have assisted some food and beverage players in operating more efficiently, thus contributing to a greater profit margin in the endemic period. This article is open to future research, particularly in investigating how restaurants and bars in nightclubs tackled the challenges brought about by the MCO in Malaysia.

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