

THE EFFECTS OF THE ECONOMIC CRISIS ON BEVERAGE SALES IN CATERING FACILITIES

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Abstract

At the end of 2008 a period of long recession in Croatian economy began, which has lead to a deceleration in economic activities and the general economic situation has worsened. The crisis is reflected in all aspects of everyday life, and also in beverage consumption in catering facilities.

In our paper we will research the scope in which the crisis has affected Croatian caterers, how they have adjusted the prices of their products and to what extent consumers have maintained the consumption. We will compare the total of declared sales, as well as the sales of beverages which fall into the category of consumption tax in the same period. In this way we will answer the main question of the paper – “Has the crisis affected outside-of-household beverage consumption habits of Croats?”

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INTRODUCTION

According to a Marketing Dictionary (Rječnik marketinga), recession (German: Konjunkturrückgang, Rezession) is the occasional deceleration in economic activity of a country accompanied by a simultaneous deterioration in general economic climate (a decline of income, an increase of unemployment, a low degree of production capacity utilization...). Recession is less profound and serious than a de-

pression. It is repeated in intervals of a few years, usually begins in one country and takes a few months or quarters to move to others.¹

The global financial crisis, caused by the breakdown of subprime mortgage market in the USA in late 2008, has not bypassed Croatia. Government measures have not proven adequate in avoiding the recession. In the following period Croatia has had a decline in GDP, a decline in household consumption, decrease of investments and a decrease of export. The causes are only partly connected to global events. In Croatia the main reasons for the recession are transition, war devastation, badly executed privatization, and most of all the incorrectly conceived economic policy, which did not stimulate development of the economy, alongside constant foreign debt accumulation.

Beverage consumption in catering facilities, which we will here divide in two groups: “food facilities” and “beverage facilities”, has been a part of Croatian culture and customs for a long period of time. The assertion we will test here is that a change in consumer behavior and uncertainty brought on by recession give scope for “vice industry”, which always grows in times of crisis. This is not surprising when considering that a crisis is a time of increased tension and stress, which people wish to decrease. Betting houses, casinos and other gambling games, as well as alcohol and tobacco consumption, offer an escape from problems and a quick distraction.²

LEGISLATIVE REGULATIONS

According to *Zakon o financiranju jedinica lokalne uprave i područne (regionalne) samouprave*³, article 31:

Consumption tax is paid for the consumption of alcoholic beverages (wine, special wine, brandy, schnapps and strong drinks), beer and non-alcoholic beverages in catering facilities. The taxpayer of consumption tax is the legal and natural person that provides catering services. The base for consumption tax is the selling price for beverages in catering facilities. The accounting and paying of consumption tax is regulated by city, i.e. district decrees.

¹ <http://limun.hr/main.aspx?id=10180>

² Ratka Jurković – Top 10 poslova koji cvatu u recesiji http://www.svanconsulting.com/svanconsulting_files/slike/files/poslovni.hr-Top_10_poslova.pdf

³ Narodne novine”, broj 117/93,33/00, 73/00, 59/01, 107/01, 117/01, 150/02 (pročišćeni tekst)

The highest allowed consumption tax rate can be 3%, as is in Osiječko-baranjska County.

Value added tax was introduced on 1st January 1998, in the amount of 22% for all beverages sold in catering facilities. On 1st August 2009 the rate of the value added tax was changed from 22% to 23%, and on 1st March 2012 from 23% to 25%.

On 1st January a lower rate of value added tax was introduced for wine, beer, non-alcoholic beverages and other catering products excluding alcoholic beverages, in the amount of 10%, but only in case the service is provided in the catering facility. This was in force until 1st January 2014, when it was increased to 13%. At the same time the rate for alcoholic beverages stayed the same; 25%.

MONTHLY SALES OF SURVEYED FACILITIES

In this paper we have surveyed turnover in catering facilities in the period from 2008 (the beginning of the recession) until 2014. The object of the survey were eleven food and beverage facilities, or more accurately six food facilities, including restaurants, ice-cream shops, grilled-meat stands, pizzerias, bistros, taverns, cottages and pubs; and five beverage facilities, including coffee-shops, bars, saloons, alehouses and inns.

Average monthly sales according to years were as follows:

Table 1: Average monthly sales

	2008	2009	2010	2011	2012	2013	2014
Facility A	20.586	102.065	103.906	125.309	672.089	578.096	861.356
Facility B	58.652	55.952	45.546	60.151	86.605	115.494	140.390
Facility C	126.349	130.994	46.849	51.774	55.963	74.904	75.697
Facility D	160.064	251.845	256.576	296.227	333.499	501.424	754.781
Facility E	133.848	173.726	124.611	184.479	142.644	126.388	109.505
Facility F	77.591	113.832	121.571	124.502	131.477	127.157	148.426
Facility G	30.209	47.595	28.977	12.681	29.718	29.888	10.228
Facility H	59.335	75.256	34.697	57.974	41.240	60.558	64.895
Facility I	21.189	26.564	29.457	33.918	33.686	62.883	170.005
Facility J	120.137	121.710	125.507	130.547	123.368	126.286	153.014
Facility K	40.546	42.463	47.088	29.068	29.394	72.528	75.536

Source: Information system of the Tax Administration, calculations by authors

The data is relatively unrealistic in showing the actual sales success when accounting for the different number of employees. In order to adequately compare the data we have reduced the average monthly turnover into average turnover per employee, which has varied in the surveyed period. The previous table then looks like this:

Table 2: Average monthly sales – per employee

	2008	2009	2010	2011	2012	2013	2014
Facility A	2.941	11.341	11.545	11.392	12.446	14.452	18.327
Facility B	8.379	11.190	11.387	12.030	14.434	16.499	17.549
Facility C	9.719	10.076	5.205	5.753	5.596	10.701	12.616
Facility D	12.313	11.993	12.218	12.343	13.340	17.908	24.348
Facility E	13.385	15.793	11.328	16.771	15.849	14.043	15.644
Facility F	12.932	16.262	17.367	17.786	18.782	21.193	24.738
Facility G	10.070	11.899	5.795	6.341	5.944	9.963	10.228
Facility H	14.834	18.814	17.349	19.325	20.620	30.279	32.448
Facility I	5.297	5.313	4.910	6.784	6.737	12.577	34.001
Facility J	20.023	20.285	20.918	21.758	20.561	21.048	38.254
Facility K	20.273	21.232	23.544	29.068	29.394	36.264	37.768

Source: Information system of the Tax Administration, calculations by authors

The average monthly sales for Facility A in 2008 was 20 586 HRK, and in 2014 it was 861 356 HRK, which constitutes an increase of 4084%. However, it should be emphasized that at the beginning of the surveyed period there were seven employees, and in 2014 there were 47. Accordingly, the turnover per employee in 2008 was 2941 HRK, and in 2014 it was 18 327 HRK, which is an increase of 523%.

At the same time, facility G had an average sales of 30 209 HRK in 2008, and 10 228 HRK in 2014 (decrease of 66%), while sales per employee has increased from 10 070 HRK to 10 228 HRK (increase of 2%). The reason for this is reducing the number of employees from three to one.

Comparison in the surveyed period shows that eight objects have had a turnover increase, while three have had a decrease. When analyzing average sales per employee all the facilities have had an increase of turnover.

Retail prices in the surveyed period have not changed significantly and the cause of turnover increase is not the cause of price increase. The changes of VAT also did not affect the significant changes of the total turnover, whether it be increase or decrease.

WINE CONSUMPTION

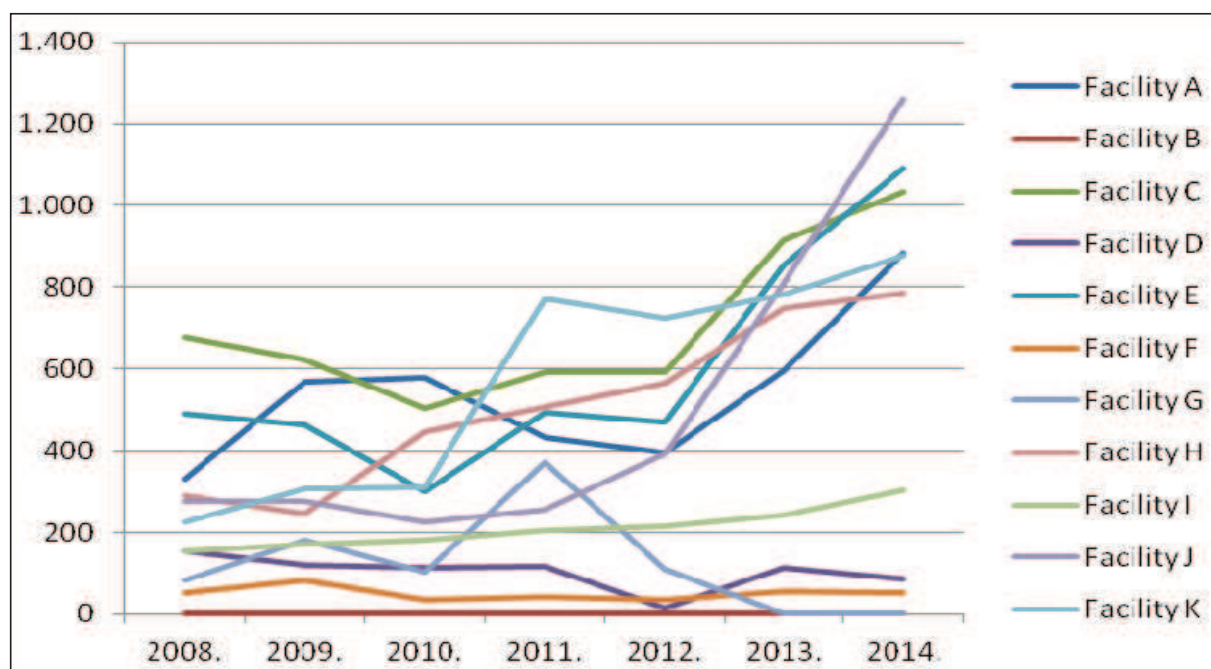
After comparing the monthly consumption tax base from the PP-MI-PO form data we have found the actual increase of turnover is as shown in the following table:

Table 3: Average monthly consumption tax base per employee – wine

	2008	2009	2010	2011	2012	2013	2014
Facility A	332	569	579	432	395	594	883
Facility B	0	0	0	0	0	0	0
Facility C	677	623	503	592	593	915	1.035
Facility D	153	122	114	115	16	115	87
Facility E	491	462	301	492	470	853	1.093
Facility F	51	82	35	43	35	54	51
Facility G	82	182	105	372	111	0	0
Facility H	291	247	447	508	566	749	786
Facility I	155	170	181	204	214	243	305
Facility J	277	276	225	255	392	809	1.262
Facility K	224	306	311	771	723	782	876

Source: Information system of the Tax Administration, calculations by authors

Most cases have recorded an increase of sales, except facilities D and G, which have changed the category of their business, and did no longer offer wine. Facility B was classified as a grilled-meat stand which has never offered wine, so it could also not be included here.

Chart 1: Average monthly consumption tax base per employee – wine

Source: Information system of the Tax Administration, calculations by authors

The chart shows a continued trend of increase of sales for most of the facilities. The only “irregularity” is the decrease in 2012. A change of VAT rate occurred this year, from 23% to 25%. Caterers have compensated for this by increasing the price of their product instead of decreasing their margin. This is why we can see a mild decrease in sales, which is not long-term, due to the continuing recession and fiscalization in 2013.

ALCOHOL CONSUMPTION

Tax definition of alcohol denotes beverages which contain alcohol, but are not wine or beer (brandy, schnapps and strong drinks⁴).

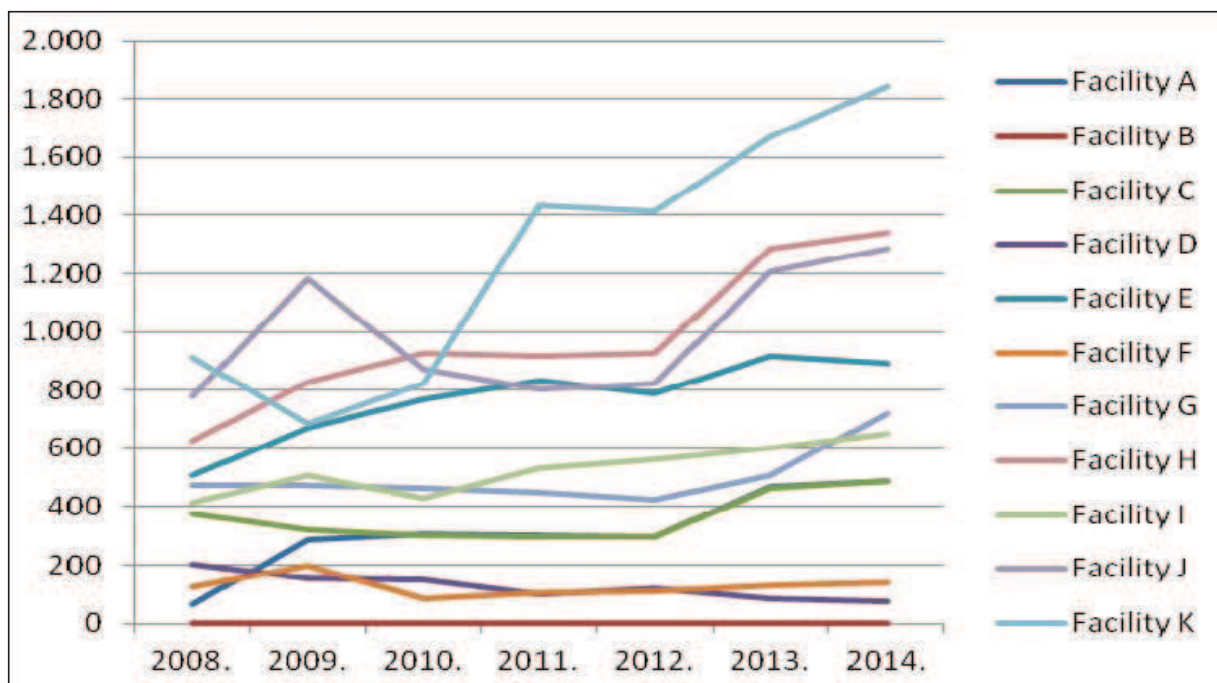
⁴ NN 147/2003 – članak 1.

Table 4: Average monthly consumption tax base per employee – alcohol

	2008	2009	2010	2011	2012	2013	2014
Facility A	65	285	306	303	296	469	486
Facility B	0	0	0	0	0	0	0
Facility C	374	323	303	294	296	463	488
Facility D	201	154	149	100	119	84	72
Facility E	509	671	769	834	787	915	893
Facility F	123	197	84	103	109	131	139
Facility G	472	473	464	451	422	509	720
Facility H	627	827	928	919	927	1.288	1.343
Facility I	415	505	427	531	560	602	651
Facility J	778	1.181	874	805	824	1.209	1.288
Facility K	910	688	824	1.433	1.413	1.671	1.841

Source: Information system of the Tax Administration, calculations by authors

The data shows that in most facilities consumption has stagnated during the years with a slight increase; but year 2013 is positive for all the facilities. The implementation of fiscalization starting from 1st January 2013 has prevented from hiding actual turnover, and it shows an apparent flourishing of Croatian catering industry. The actual growth is present, but far from the numbers shown in the chart.

Chart 2: Average monthly consumption tax base per employee – alcohol

Source: Information system of the Tax Administration, calculations by authors

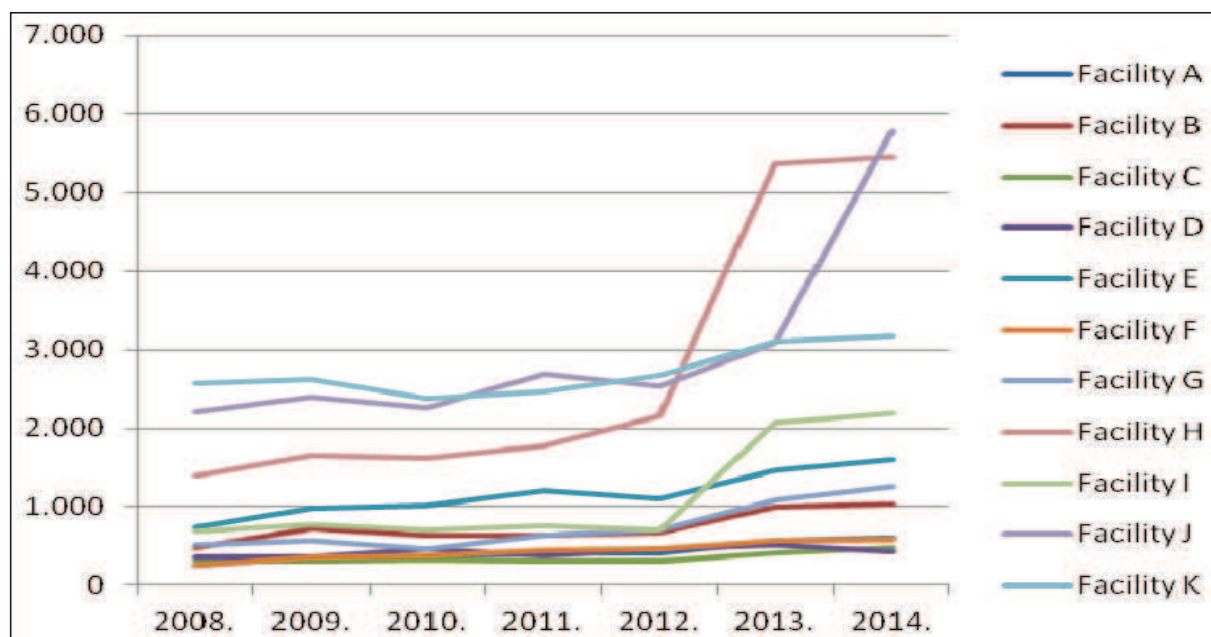
BEER CONSUMPTION

Table 5: Average monthly consumption tax base per employee – beer

	2008	2009	2010	2011	2012	2013	2014
Facility A	256	356	368	412	406	563	605
Facility B	486	726	641	632	668	998	1.029
Facility C	323	311	322	306	313	411	474
Facility D	363	365	467	382	459	520	438
Facility E	748	985	1.023	1.210	1.110	1.473	1.601
Facility F	254	367	372	455	467	577	588
Facility G	509	574	472	633	715	1.085	1.258
Facility H	1.400	1.654	1.624	1.775	2.162	5.367	5.446
Facility I	698	777	709	765	709	2.076	2.191
Facility J	2.204	2.389	2.262	2.696	2.539	3.094	5.772
Facility K	2.565	2.618	2.379	2.471	2.674	3.108	3.170

Source: Information system of the Tax Administration, calculations by authors

Consumption of beer, as expected, has increased over the years. It is a beverage widely accessible, and the realized sales only confirm the statement – consumption is growing, even up to 289% in case of facility H. Again, there is a non-linear growth starting with 2013 caused by fiscalization. Facility H records an increase of beer sales of 148%.

Chart 3: Average monthly consumption tax base per employee – beer

Source: Information system of the Tax Administration, calculations by authors

NON-ALCOHOLIC BEVERAGE CONSUMPTION

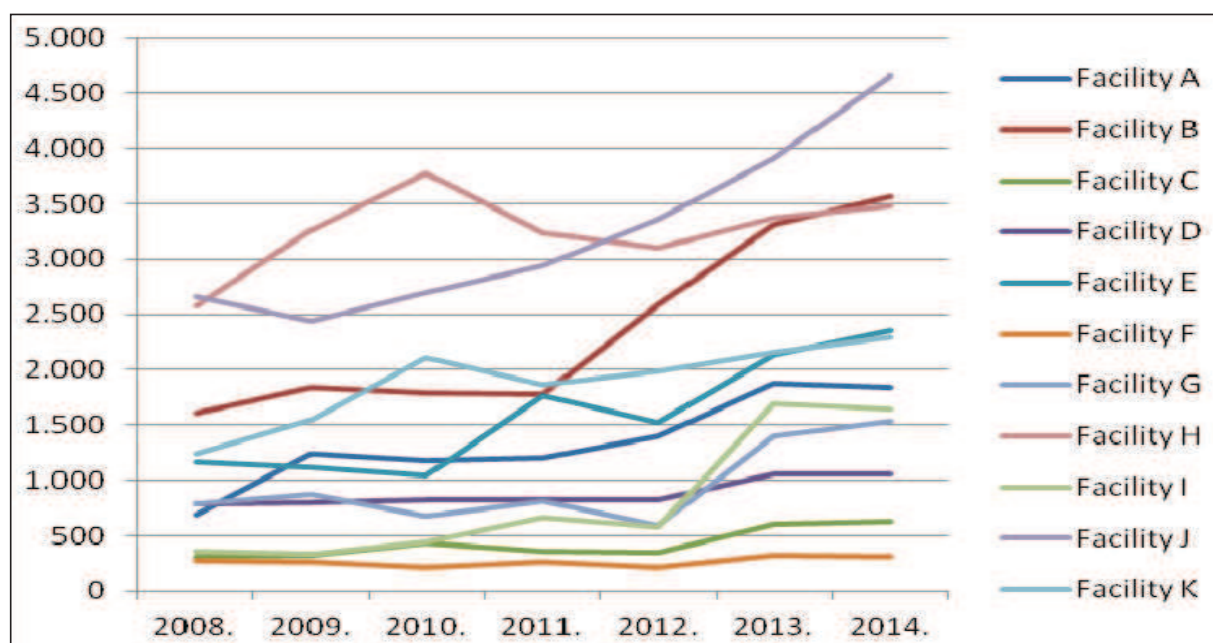
Table 6: Average monthly consumption tax base per employee – non-alcoholic beverage

	2008	2009	2010	2011	2012	2013	2014
Facility A	691	1.235	1.184	1.205	1.395	1.881	1.834
Facility B	1.613	1.842	1.791	1.779	2.590	3.316	3.564
Facility C	304	326	430	353	339	603	626
Facility D	787	797	822	822	828	1.055	1.053
Facility E	1.163	1.120	1.042	1.770	1.527	2.135	2.359
Facility F	275	265	210	258	213	326	303
Facility G	780	878	675	811	590	1.404	1.528
Facility H	2.580	3.261	3.782	3.241	3.107	3.378	3.483
Facility I	361	338	438	661	584	1.692	1.647
Facility J	2.657	2.440	2.702	2.942	3.355	3.915	4.664
Facility K	1.240	1.552	2.111	1.867	1.984	2.161	2.295

Source: Information system of the Tax Administration, calculations by authors

Average monthly consumption of non-alcoholic beverages fluctuates the most. However, the only common thing with the rest of the sales is, again, the growth in 2013.

Chart 4: Average monthly consumption tax base per employee – non-alcoholic beverage



Source: Information system of the Tax Administration, calculations by authors

CONCLUSION

In the service of providing lodging and food and beverage service (catering industry) – small legal and natural persons have, in 2013, declared taxable deliveries in the amount of 40%, i.e. 2.6 billion HRK more than in 2012. Natural persons have declared 55% of this, i.e. 1.5 billion HRK, and small legal persons 30%, i.e. 1.1 billion HRK⁵, as the Tax administration has announced on 18th March 2014.

Considering that the Fiscalization Act for cash transactions came into effect on 1st January 2013, and that by 1st January 2014 all taxpayers have conformed to it, a great increase of declared deliveries by comparison of VAT forms from January 2013 and the same month of 2014 was not expected.

⁵ http://www.porezna-uprava.hr/HR_Fiskalizacija/Aktualnosti%20dokumenti/Priop%C4%87enja/Fiskalizacija180314.pdf

A portion of the turnover increase came from increasing the sale volume, not from the changes in VAT rates over the years, because the base for the tax remained unmodified the whole time.

This only confirms the assertion from the beginning of the paper – Croats indeed do drink more since the recession. The reason for this, except the above mentioned fiscalization, which has affected realistic declaring of sales, is also that in times of crisis people turn more to vice – gambling, games of chance, tobacco and alcohol.

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