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THE RESPONSE OF THE RESTAURANT INDUSTRY TO THE FINANCIAL CRISIS

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Abstract

This study examines crisis management practices in the restaurant industry. The survey was conducted in the Municipality of Piran, the most developed municipality in Slovenia, when tourism is concerned. The study investigates the differences in response of the restaurant industry to the economic crisis. In particular this research focuses on usage of different operational crisis management practices. The results indicate that in general there are no statistical significant differences in the usage of different operational crisis management practices, according to different F&B facilities, forms of business organizations and ownership structure of the F&B facilities. Conclusion provides suggestions for future research and useful information for managers of catering facilities.

Keywords: recession, crisis management, restaurant industry, Municipality of Piran

1. INTRODUCTION

One of the most significant characteristics of modern times is the existence of crises. The economic crisis that began in 2008 has been the most thoroughgoing one since 1929 (Brandl, Traxler, 2011). The crisis began with a liquidity crisis in the banking system resulting from sale of complexly structured financial products. In the beginning the crisis did not reach Slovenia, however, during the crisis Slovene economy suffered, mostly due to its economic (banking) problems. The altered perception of risk and the increased number of unemployed people led to falling demand. The research was performed in the municipality of Piran, the most developed municipality in Slovenia, when tourism is concerned.

Statistical and financial data show that tourism share directly represents 2.5% of national GDP and employs 3.3% of the economically active population in the country ("SURS", 2010). In 1994 Slovenia took over a new classification of business entities for the purposes of official and other administrative databases. Standard Classification of Activities covers 21 areas and food and beverage facilities can be found under "Food and beverage service activities"¹ ("SURS", 2010). In 2011 in Slovenia 2.193 F&B companies (establishments) operated with a total of 8,859 employees. The number of F&B establishments operating in the municipality of Piran in 2011 was 172.

Table 1

F&B service activities for Slovenia and the Municipality of Piran – Financial data for 2011

Financial indicators	Value	
	Slovenia	Municipality of Piran
Ratio of capital to capital and liabilities, in %	21.3	32.8
Current Ratio	0.77	0.75
Net return on assets - ROA	-0.010	-0.009
Net return on capital - ROE	-0.045	-0.027
Revenues per employee in EUR	61,087	56,605
Value added per employee in EUR	19,721	18,483
Average gross monthly salary per employee in EUR ²	958	939

Source: ("Ajpes", 2012)

In Table 1 we can see some basic financial data for companies in food and beverage service activities for Slovenia and the municipality of Piran in 2011. We can see that companies in the municipality of Piran have a higher share of assets founded by the owner's equity. Both return ratios are negative and this

¹ Food&Beverage (F&B)

²Official figures do not include tips and other benefits.

indicates that companies are making losses. As far as ratios of salaries are concerned, companies in the municipality of Piran achieved worse results than the average of companies in Slovenia. Low value of value added per employee indicates that some serious structural changes are needed. The most apparent outcome of the crisis is a decline in consumption and the reduction of tourists and daily visitors (TZP, 2012).³

The current study expands the existing body of literature by examining the restaurant industry. Current literature on crisis management primarily focuses on general and strategic guidelines for coping with different crisis situations and there are almost no studies that measure and evaluate the micro level-operational practices of the catering businesses. Based on the literature preview, we formulated our research questions:

a.) Which operational measures were taken to alleviate the impacts of the crisis?

b.) Is there a significant distinction in the measures taken between different types of F&B facilities, forms of business organizations and ownership structure of the F&B facilities?

This paper offers a methodology for studying and implementing micro-level practices of crisis management in the catering industry in Slovenia. In the conclusion suggestions for future research and useful information for managers of catering facilities are provided.

2. LITERATURE REVIEW

The current literature on crisis management mostly focuses on general prescriptive models (practices) which provide general guidelines for coping with different crisis situations such as terrorism, health-epidemic crisis (Handerson, 2003; Baxter and Bowen, 2004) and natural disasters (Pforr and Hosie, 2010). The majority of research efforts were primarily directed to violence activities relevant to the tourism industry and recommendations of preparations for times of terror; Pizam and Mansfeld (1996), Leslie (1996) and Mansfeld (1999) analyzed different occurrences of terrorism in the tourism context, Stafford et al. (2002) and Blake and Sinclair (2003) detailed the reaction of the USA hospitality industry to the terroristic events of September 11, 2001, Damion (2012) analyzed the recovery of Balinese and Egyptian tourism after terrorist attack. Ritchie (2003) stressed the importance of a holistic approach to crisis management in tourism, as tourism crisis management can be vastly improved through application of crisis and disaster theories and concepts from other disciplines.

³TZP (Tourist Board Portorož).

There are also alternative models which focus on business crises, although the scientific literature barely mentioned the economic crisis effects on tourism prior to the financial crisis of 2008. The majority of studies present crisis management from a descriptive or historical perspective. Lerbinger (1997) categorized crisis according to external and internal factors that generated different business crisis types. Mansfeld (1999) historical review suggests that one method for coping crisis is by using extensive marketing. Finally there are some studies that provide an outline for crisis management in the hospitality industry. Barton (1994) presented general guidelines for managerial preparations required in times of crisis. Ulmer and Sellnow (2000) provided a case study based on historical and ethnical analysis in presenting the crisis on a restaurant chain. Studies dealing with economic effects on tourism (mostly on tourism demand, not offer) were published only after 2008 (Blazevic, 2010; Susilovic, Sertic, 2010; Prstojevic, Dimitric, 2010; Mihailovic, Marjanovic, 2010; Richa, Venkatesh, 2009), although some authors investigated the response of different hospitality facilities to the crisis. Kimes (2009) investigated the hotel revenue management practices in an economic downturn. The study revealed that the crisis is worldwide and there is no distinction between different hotel types with different brands or qualities, although Barsky (2009) according to his research stated that crisis affects luxury hotels less than others. This finding was also supported by Barsky and Nash (2008) and Kim and Kim (2005). On the contrary Herbert et al. (2009) stated that for some reasons the most severely affected businesses tend to be the French fine-dining restaurants, as they carry the stigma of being expensive. These findings are also supported by Hampson and McGoldrick (2011). Their research on shopping patterns in recession showed that shoppers are much more knowledgeable and concerned with value than ever before.

Alonso-Almeida and Bremser (2012) investigated strategic responses of the Spanish hospitality sector to the financial crisis. The study showed that hotels that focus on high quality, brand image, strong marketing performance and loyal customers are best equipped to handle the crisis.

In times of crisis it appears that branded hotels can retain their clientele by offering added value for customers. The finding suggests that a positive relation exist between customer loyalty and retention and the hotel financial performance (Williams and Neumann, 2011). A study of Gruca and Rego (2005) indicates that customer satisfaction and loyalty reduces variability of future cash flows and hotels with a higher level of customer satisfaction enjoy lower price sensitivity. Along with brand image and quality the findings show that the best way of coping with crisis is a large and loyal customer base, which affects performance positively during and after the crisis (Alonso-Almeida and Bremser, 2012).

Cost reduction is also a commonly used strategy in times of recession. Retrenchment through cost-cutting enables firms to rebound from recession (Pearce and Michael, 1997), but extra caution is required when implementing such measures as they could permanently damage the company's competitive

advantage and market share growth. The findings show that the worst performers in times of crisis take only measures to increase flexibility. Such measures change the service offered and deteriorate the competitive position. As a result companies are forced to reduce prices to attract customers. Managers must be extra cautious regarding the extent to which they implement this strategy (Okumus and Karamustafa, 2005; Alonso-Almeida and Bremser, 2012). Alonso-Almeida and Bremser (2012) found that hotel management cuts salaries, budgets and services immediately to cope with crisis. Cost reduction strategy is essential, but must be implemented carefully and should always take into account other vital elements, specially the brand image and the quality of services offered. The best model of coping with crisis (the case of Spain) shows that some hotels after carefully reducing costs did not suffer a decrease in sales. On the contrary worst performers were not able to cut operational costs, but were forced to decrease their prices (Alonso-Almeida and Bremser, 2012). Recession also creates opportunities and managers should make efforts to create a strong brand through marketing, new distribution channels, alternative suppliers etc. The findings show that managers should not take measures that affect either brand image or quality visibly (Okumus and Karamustafa, 2005; Alonso-Almeida and Bremser, 2012). Cost reduction (Alonso-Almeida and Bremser, 2012) is generally the most used crisis practice to cope with crisis in Spain and is followed by efficiency improvement, competitiveness improvement and income reduction. Income reduction through price reductions and reduction of occupancy rates is the last measure managers take to cope with crisis. A study on the impacts of recession on tourism and hotel companies in Croatia (Smolčić Jurdana, Maškarin, 2010) has revealed similar measures implemented by hoteliers in order to minimize the impacts of recession. These measures include pricing policy (in terms of intensive yield management-lower prices were offered only for special purposes), product policy (instead of offering new products, hoteliers thoroughly focused on existing ones), promotion (marketing budgets were increased between 30-60%), costs (employee, material and energy costs). The analysis pointed out that none of the measures had influenced the quality level and that hidden reserves for increasing business efficiency were found.

In theory crisis management can be divided into anticipatory, crisis identification and reactive crisis management (Laitinen, 2000). Previous studies considered proactive marketing strategies as the most successful ones in times of crisis (increased spending on marketing and sales) as results have shown that during recession consumers adapt (change) their shopping patterns. Companies must react to this change with increased visibility on the market (Laitinen, 2000; Okumus et al., 2005). Azabagaoglu and Oraman (2011) stated that although in general shopping patterns change during recession, consumers prefer known quality brands and tend to be loyal to them. Turning to new markets or segments during recession also helps to increase sales. Kimes (2009) and Lee et al. (2009) noted that during the peak of a recession even a cautious expansion (new marketing acquisition) should be pursued.

Nevertheless, to date there are almost no research and literature on specific micro-level practices in the catering industry. The only studies which have addressed the specific micro level (operational) activities restaurant managers have to take to manage crisis situations and evaluate the importance of these activities (as well as their usage) in the restaurant industry are the studies conducted by Israeli and Reichel (2003) and Israeli (2007) on the Israeli hospitality industry and Okumus and Karamustafa (2005) on the Turkish hospitality industry.

3. METHODOLOGY

To conduct our study we based on a questionnaire that has been developed by Israeli and Reichel (2003) as a tool for evaluating crisis-management practices in the Israeli hospitality industry. The method bases on the performance model. The questionnaire examined the level of actual usage for each of the 19 practices listed using a five point Likert-type scale. The study used the above mentioned practices to develop four major categories of crisis management. These categories are: marketing, operational processes, government assistance and human resources. This model can aid in evaluating different crisis management practices. As the selection of specific practices in a given industry is crucial (Yoon and Hwang, 1995), the list of practices with general guidelines can also be assembled for specific problems in different areas of tourism industry. Due to local specifics of the catering industry, some practices listed by Israeli (2007), were adequately adjusted.

Table 2

Practices of crisis management for the catering industry, by category

Category	Practice description
Human resources	<ol style="list-style-type: none"> 1. Reducing the number of employees 2. Shortening working hours 3. Lowering personal income 4. Reducing the number of permanent employees 5. Part time employment and outsourcing
Marketing	<ol style="list-style-type: none"> 1. Joint marketing campaigns with business partners 2. Active advertising in the media 3. Increasing the number of specific actions (happy hour, etc.) 4. Price drops 5. Promoting new products and services 6. Marketing to new segments 7. Increasing the number of fixed price menus
Operational processes	<ol style="list-style-type: none"> 1. Cost cuts by limiting restaurant services 2. Cost cuts by using cheaper substitutes in the kitchen 3. Postponing maintenance to the facility 4. Postponing scheduled payments

Government assistance	<ol style="list-style-type: none"> 1. Organized protest against the tax legislation 2. Organized protest against labor legislation 3. Increasing the sector's power by joining catering associations, chambers, unions etc.
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Source: adapted by Israeli and Reichel, 2003.

In order to measure how managers cope with the global financial crisis, a field survey has been conducted. Our research covered the entire population of food and beverage facilities in the coastal municipality Piran. Managers were asked to cooperate in the research in order to gain their perspectives of crisis management. The sample included all 191 facilities operating in the Municipality of Piran. This research is part of a broader study that was carried out by students of the Faculty of Tourism Studies Portorož – Turistica in September 2012. A surveyor was sent to each facility, asked to meet the manager and gave him (her) the questionnaire. The manager could complete the questionnaire on the spot, or ask the surveyor to return at a later time to pick the questionnaire. Some managers refused to participate for a variety of reasons. From the original sample of 191, 94 questionnaires were returned. The response rate was 42.21%. 8 questionnaires were unusable, so they were not included in our study. Hence the final analysis is based on 86 valid questionnaires. Student fieldwork was thoroughly supervised by lecturers. The program SPSS was used for the analysis of the results.

The questionnaire measured managers' usage of practices of crisis management. This was measured on a five point Likert-type scale ranging from 1 (rarely used) to 5 (extensively used). With the second part of the questionnaire socio-demographic data about respondents and general information on food and beverage facilities were collected. Socio-demographic data and basic information on food and beverage facilities were analyzed by a descriptive statistical analysis.

4. RESULTS AND DISCUSSION

First we analyzed the socio-demographic data. The demographic data of the respondents are presented below.

Table 3

Profile of respondents (n=86)

Variables		Frequency (s)	Percentage (%)
Gender	Female	30	34.9
	Male	56	65.1
Age	up to 24	8	9.3
	25-34	20	23.3
	35-44	27	31.4

	45-54	26	30.2
	55-64	5	5.8
Years of experience	0-10	51	59.3
	11-20	21	24.4
	21-30	9	10.5
	31-40	5	5.8
Level of education	Postgraduate education	1	1.2
	Higher education	28	32.6
	Secondary school	33	38.4
	Vocational school	20	23.3
	Primary school	4	4.7
Ownership structure	Owner and manager of a facility	45	52.3
	Manager of a facility	41	47.7

In Table 3 some basic demographic data are presented. As can be seen, there were more male managers (65.1%) than females (34.9%). The highest proportion of respondents fell into the 35-44 year age group (31.4%), followed by 45-54 year age group (30.2%). As far years of experience are concerned, the highest proportion of respondents fell into the 0-10 year group and 38.4 % of respondents had secondary education. 52.3% of respondents owned and managed the facilities. Next we analyzed basic information on F&B facilities.

Table 4

Basic information on F&B facilities (n=86)

Variables		Frequency (s)	Percentage (%)
Type of food and beverage facility	Restaurant	26	30.2
	Inn	10	11.6
	Pastry shop	3	3.5
	Cafe	3	3.5
	Snack bar	22	25.6
	Bar	21	24.4
	An establishment for preparation and delivery of meals	1	1.2

Type of business entities	Sole proprietorship	50	58.1
	Limited liability company	33	38.4
	Joint-stock company	3	3.5

From Table 4 it is clearly evident that in our study prevailed restaurants (30.2%), snack bars (25.6%) and ordinary bars (24.4%). More than half of F&B facilities (58.1%) were organized as sole proprietorship. This led us to think that these F&B facilities are smaller business entities.

Table 5

Practices' mean and standard deviation

Practice description	Usage	
	Mean	Std.dev.
1. Reducing the number of employees	2.97	1.491
2. Shortening working hours	2.62	1.312
3. Lowering personal income	3.10	1.096
4. Reducing the number of permanent employees	3.14	1.219
5. Increased reliance on outsourced human resources	2.95	1.405
1. Joint marketing campaigns with business partners	2.48	1.477
2. Active advertising in the media	2.66	1.428
3. Increasing the number of specific actions	3.19	1.288
4. Price drops	3.03	1.467
5. Promoting new products and services	2.58	1.306
6. Marketing to new segments	2.70	1.398
7. Increasing the number of fixed price menus	3.08	1.180
1. Cost cuts by limiting restaurant services	2.91	1.343
2. Cost cuts by using cheaper substitutes in the kitchen	2.91	1.508
3. Postponing maintenance to the facility	2.98	1.337
4. Postponing scheduled payments	2.57	1.523
1. Organized protest against the tax legislation	2.50	1.485
2. Organized protest against labor legislation	2.57	1.402
3. Increasing the sector's power by joining catering associations, chambers, unions etc.	2.28	1.469

From Table 5 we can see the usage of crisis management practices. The highest mean is at "Increasing the number of specific actions", "Reducing the number of permanent employees", "Lowering personal income" and "Increasing the number of fixed price menus". The results from Table 5 gave us the answer to our first research question.

In order to get the answer to our second research question, we used the non-parametric Wilcoxon Mann Whitney U Test for two independent samples. This test is quite commonly used instead of t-test for independent groups (Ho, 2006). The main reason for choosing this test lies in the fact that we had ordinal variables. For the empirical analysis, we formed the null hypothesis (H_0) and alternative hypothesis (H_1) for each pair of analyzed variables: $H_0: Me_1 = Me_2, H_1: Me_1 \neq Me_2$.

First we tested our hypothesis at the type of F&B facilities. The results are presented in Table 6.

Table 6
Wilcoxon Mann Whitney U Test – restaurants and bars

	Usage	
	Organized protest against tax legislation	Organized protest against labor legislation
Mann-Whitney U	158.000	157.000
Wilcoxon W	509.000	508.000
Z	-2.589	-2.609
Asymp. Sig. (2-tailed)	0.010	0.009

If we look at the usage of different crisis practices across different F&B facilities, we can see that statistical significant difference occurs only at two practices, namely “Organized protest against tax legislation” and “Organized protest against labor legislation”. This distinction occurs only at restaurants and bars. At all other crisis management practices there are no statistical significant differences. So, from the results presented in Table 6 we can reject the null hypothesis in favor of the alternative hypothesis at only two practices. This finding was unexpected. Restaurants are gastronomic - dining facilities, offering a wide range of gastronomy services, when bars mainly focus on beverages. We cannot really find a logical explanation for this difference and more research on this topic needs to be undertaken before the association between different types of facilities is more clearly understood.

Table 7

Wilcoxon Mann Whitney U Test – restaurants and snack bars

	Usage		
	Part time employment and outsourcing	Organized protest against the tax legislation	Organized protest against labor legislation
Mann-Whitney U	192.000	193.000	177.500
Wilcoxon W	543.000	544.000	528.500
Z	-1.992	-2.036	-2.363
Asymp. Sig. (2-tailed)	0.046	0.042	0.018

Analysis also showed statistical significant differences at restaurants and snack bars (Table 7). We can reject the null hypothesis in favor of the alternative hypothesis at three practices, namely “Part time employment and outsourcing”, “Organized protest against the tax legislation” and “Organized protest against labor legislation”. At all other crisis management practices there are no statistical significant differences. It is somewhat surprising that statistically significant difference occurs only at restaurants and snack bars. This finding was also unexpected and suggests that future studies on the current topic are therefore recommended to better explain differences between different types of F&B facilities.

Based on the analysis of usage of crisis management practices according the ownership structure of companies, we can reject the null hypothesis in favor of the alternative hypothesis at three practices, namely “Shortening working hours”, “Active advertising in the media” and “Marketing to new segments”. Results are presented in Table 8.

Table 8

Wilcoxon Mann Whitney U Test – sole proprietorship and Limited Liability Company

	Usage		
	Shortening working hours	Active advertising in the media	Marketing to new segments
Mann-Whitney U	621.000	615.500	568.000
Wilcoxon W	1896.000	1176.500	1129.000
Z	-1.958	-2.005	-2.464
Asymp. Sig. (2-tailed)	0.050	0.045	0.014

At all other crisis management practices there are no statistical significant differences. This result may be explained by the fact that F&B facilities are mostly small business entities, owned and managed by entrepreneurs who are organized as sole proprietorships. It seems possible that sole proprietorships are more versatile in their responses to the crisis than other types (forms) of business organizations.

Table 9

Wilcoxon Mann Whitney U Test – owner and manager or manager

	Usage
	Marketing to new segments
Mann-Whitney U	702.500
Wilcoxon W	1737.500
Z	-1.958
Asymp. Sig. (2-tailed)	0.050

The results in Table 9 show that at the usage of crisis management practices according the management structure of the companies, we can reject the null hypothesis in favor of the alternative hypothesis at only one practice, namely “Marketing to new segments«. At all other crisis management practices there are no statistical significant differences. This finding seems to be consistent with our earlier observations. A possible explanation for this might be that managers that own their businesses are more marketing oriented and take more vigorous actions to alleviate the impact of the crisis in comparison to managers, which do not own their businesses.

5. CONCLUSIONS, RECOMMENDATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

In conclusion the findings focus on several important observations and findings. Most of the practices were used reactively as a direct response to the crisis. This finding was already identified in other studies (Mansfeld, 1999; Israeli and Reichel, 2003; Israeli, 2007). Proactive management is undoubtedly necessary, but in practice randomly occurs. Proactive strategies are difficult to implement universally, as the use of internal factors to successfully overcome the external crisis (recession) often depend on other external factors (legislation, market offer, politic situation etc.) and therefore limits managerial ability to use internal factors.

Crisis management is often performed through different combinations of practices. This study has revealed that in general there is no significant distinction in the usage of crisis management techniques between different types of F&B

facilities, forms of business organizations and ownership structure of the F&B facilities. In our analysis we found statistical significant differences at only 6 crisis management techniques.

However, these results were not very encouraging. In general, therefore, it seems that F&B managers do not really know how to successfully cope with the financial crisis. A possible explanation for such results may be the lack of adequate scientific research and consequently a lack of professional guidelines on how to successfully cope with the crisis. It is possible to hypothesize that this conditions are mainly the result of reactive crisis management actions. Several questions remain unanswered at present and future studies on the current topic are therefore highly recommended.

The second important theme can be titled cost reduction. In times of crisis cost reduction must be a major element of the business activity, but specific practices such as "lowering personal income" and "reducing the number of employees" should be implemented with extreme caution. As people are the crucial and unmistakable component of success in the catering business managers should avoid these practices. Competitiveness should be achieved through other practices rather the labor cost reduction. As there are none similar studies in Slovenia or the EU, we can strive to compare this study to measures implemented by hoteliers. The analysis of the neighboring Croatia (Smolčić Jurdana, Maškarin, 2010) pointed out that none of the measures implemented by hoteliers had influenced the quality level and that hidden reserves for increasing business efficiency were found. This could be partially explained by the incomparable size of the establishments (bars prevailed in our study) and the educational level of managers. The majority of restaurant managers only have vocational or secondary education.

In the context of the catering industry we can reconfirm Israeli's (2007) two main practical recommendations. Managers should primarily focus on increased competitiveness and cost price reduction as a part of their daily routine. According to our findings we must further recommend future education of restaurant managers. As different crises also create opportunities, managers should make efforts to create a strong brand image through intensive marketing, implement new distribution channels, turn to new segments etc.

The suggestions for future research are to extend the analysis to different areas of the tourism industry in the country and region. Given the limited geographic area in which the study was performed the results might not be applicable to facilities in other locations. An increase in the geographic coverage to the entire country could offer further valuable insight. The survey only gives a snapshot of the situation during the crisis period, although it offers an almost complete picture of a specific geographic area.

Larger data are required to detect the long term effects of recession. In addition a thorough financial analysis could offer useful information as managers' perception is often biased. This study only refers to catering establishments.

Other companies that also belong to the tourism sector are not included in the study. Undoubtedly interesting findings would result from a deeper analysis of the entire tourism sector.

We can conclude that the economic crisis is eventually going to pass but there will always be different crises. Crisis management practices can undoubtedly help the company to adopt and survive in times of crisis. As the catering companies operate in a volatile environment constant adoption is needed. The list of specific practices can be used as a guideline for crises managers on how successfully overcome or even avoid different crisis situations, if the practices are used proactively.

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ODGOVOR RESTORANSKIH DJELATNOSTI NA FINANCIJSKU KRIZU

Sažetak

Istraživanje se bavi praksama upravljanja kriznim situacijama u restoranskim djelatnostima. Istraživanje je provedeno u općini Piran, najrazvijenijoj općini u Sloveniji u odjelu turizma. Istražuju se razlike u odgovoru restoranskih djelatnosti na ekonomsku krizu. Fokus je na upotrebi različitih praksi operativnog upravljanja kriznim situacijama. Rezultati pokazuju da u cijelosti nema statistički važnih razlika u operativnom upravljanju kriznim situacijama u kontekstu različitih F&B objekata, oblika organizacije posla i vlasničke strukture F&B objekata. U zaključku se predlažu buduća istraživanja, ali i korisne informacije za upravitelje ugostiteljskih objekata.

Ključne riječi: recesija, upravljanje kriznim situacijama, restoraterstvo, općina Piran

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