

Haidilao's Business Performance Comparison Analysis on Condition of COVID-19

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Abstract. The outbreak and continuation of the pandemic have hit many industries fiercely. In such a situation where the future of enterprise development is not clear in the stage of the global economic downturn, it is crucial to study the root causes and influences, thus summarizing them to find new development opportunities. In this paper, we study the operating conditions of the catering industry before the pandemic and we analyze the impact that COVID-19 brings after 2019. Also, the latest situation has been studied. In addition, we use a case study as our research method and the effort we made reveals that the restaurant industry is still a thriving and flourishing business although it has gone through some ups and downs during the pandemic, it has significantly increased a new way of selling which is online ordering. In addition, there are pieces of advice mentioned in this paper that we hope to contribute to this issue.

Keywords: Catering industry, pandemic, COVID-19, Haidilao.

1. Introduction

Since 2020, covid 19 has spread through the world and brought severe economical issues globally. From *the Economic Impacts of the COVID-19 Lockdown in a Remittance-Dependent Region*, the lockdown has caused issues of a higher cost of production and lower income, which is harmful to entrepreneurs survival. According to *News and uncertainty about COVID-19: Survey evidence and short-run economic impact*, extracted from science direct, the covid 19 has caused economic problems such as high inflation. It means that fewer goods are pursued by the consumers due to the higher price, so fewer goods are produced and the economy meets a fall in real GDP. From this news and survey, all the data shows that the pandemic is detrimental to the economy and every stakeholder should be aware. There are also some data to verify the negative impact during the covid-19.

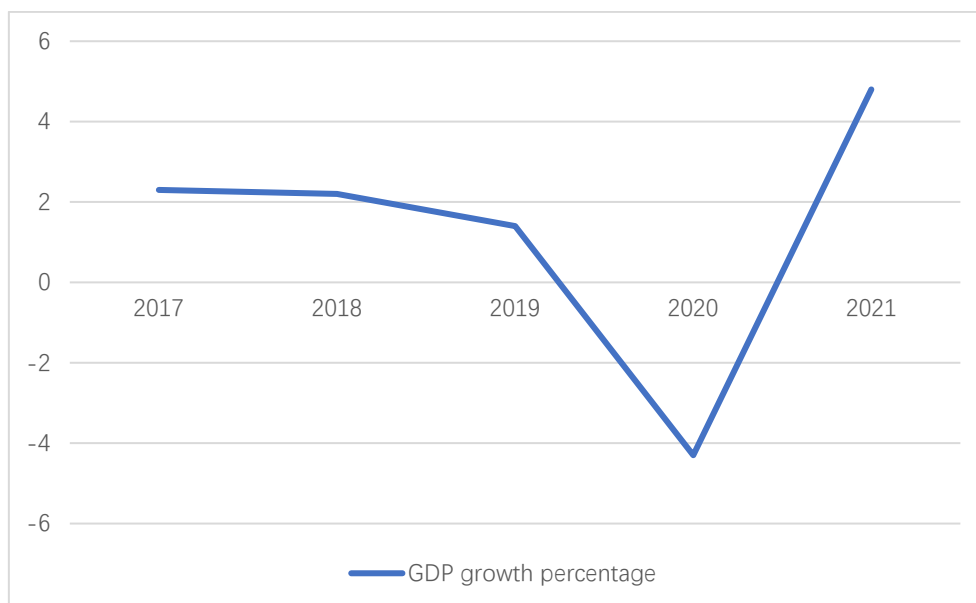


Fig 1. GDP per capita growth

Referred to figure 1, the trend of the real GDP shows a V shape. Even though the GDP per capita growth rate gradually fell from 2017 to 2019, the growth rate remained at a level of 2%, which means that there weren't any significant changes in the whole economy. However, starting from the first year of the covid-19 pandemic in 2020, the real GDP growth has fallen to -4%. A sudden fall in GDP usually comes up with a rise in inflation and higher unemployment, meaning that individuals need to purchase fewer goods at a higher price with lower or zero income, which significantly damages their facility. It tells that individuals receive higher costs and firms have to decrease production during the pandemic year, and both consumers and firms are worsened. From another perspective, the growth of GDP turned to 4% which was twice the first 3 years in 2021. Even though the real GDP might retrieve the loss back from the pandemic, the rate indicates a recovery of the economy.

During the first season in 2020, the pandemic bought severe shock to China's economy negatively through many aspects. Productivity, demand and supply, residents' income, and prices were all influenced which leads to a reduction in economic growth rates and the firm's profitability. Initially, in January, the growth rate of citizens' disposable income was only 0.8% which was lower compared to 2019 [1]. The consumer price index (CPI) was 4.9% higher than CPI in 2019 as prices of daily necessities increased [2]. During the first season, the growth rate of the economy decreased by 6.8%, up to 13.2 percentage points lessened compared to the first season in 2019 [3]. This was the first time that a negative economic growth rate occurs seasonally in China since 1992 and the falling rate was more substantial compared to falling rates in 1998's Asia financial crisis or 2008's global financial crisis. In 2020, under the pandemic, China lost about 4 trillion yuan directly which accounts for 4% of China's GDP. [4] On the other hand, the firm's profitability was influenced negatively as well. In the first season, the enterprise's total profit year on year decreased by 38.3% and the decreasing amplitude increased by 33.4 percentage points. At the end of 2019, the enterprise's total profit was sustained at a negative growth rate but the decreasing amplitude was more stable [5]. The main cause of decreasing in total profit was lockdowns for most industries and higher costs of processing and depreciation. Positively, in March 2020, as the pandemic was under control in China, lockdowns for most industries were canceled and firms were able to resume production easily [6]. The enterprise's total profit year on year was rated at 34.9%, indicating decreasing amplitude was lessened by 3.4 percentage points compared to January [7]. Furthermore, in 41 industrial categories, out of 28 industry profits growth rates were faster compared to January, and out of 8 industrial categories profits growth rates were positive [8].

In conclusion, during the first season of 2020, China experienced negative economic growth but it turns better in March as the pandemic was under control and industries were able to continue

production. In long run, China's economy can still grow positively [9]. To the other extent, many economists had given political suggestions in order to stimulate economic growth, such as using monetary policy by lowering interest rates to encourage consumption or increasing fiscal expenditure by investing 500 billion yuan [10].

In this paper, we initially investigate the impact of the pandemic on economic development and then we focus on the extent to which the catering industry is affected. Additionally, a comparison is made between the performance of the catering industry in the context of the pandemic and its pre-pandemic performance. In the end, we put forward some proposals and point out the shortcomings of this paper as well as the direction of future modification.

2. Data

2.1 Overview of the catering industry

After years of development and market competition, China's catering industry has been in a new era that involves large scales, multiplex investment body, various business bodies, and chained operations. It is noticeable that consumers' choices are widening and meals ranked first compared to other kinds of food, such as fast-food or western food, accounting for 42.39%. Besides, with the rapid development of the Internet, online takeout is becoming more and more popular, especially after 2019, since the breakout of COVID-19 has had an adverse impact on offline restaurants.

2.2 Performance of this industry during a pandemic

It is apparent that the epidemic brings challenges to this industry, but fortunately, the situation is getting better. Firstly, in terms of market size and revenue, the scale was 3 trillion yuan and 4 trillion yuan in 2015 and 2018 respectively, and it exceeded 4.7 trillion yuan in 2019. Although there was a decline of 16.6% in 2020, in 2021, the country's catering revenue grew 18.64% year on year by 4,689.5 billion yuan. Secondly, During the post-epidemic period, the catering industry even witnessed an investment boom. Both the quantity and amount of investment increased from 2020 to 2021. Thirdly, different regions have different performances. In 2020, East China, South China, and Central China all witnessed certain growth in their offline store size compared to that of 2019, while the scale of catering outlets in southwest China decreased by 4.60% compared with the epidemic period. Lastly, there will be new opportunities for restaurants that are geographically closer to consumers, it shows that 45.70% of consumers choose restaurants near their homes and 36.10% choose to eat near their companies.

2.3 Background and management condition of Haidilao

Haidilao was founded in 1994 and it's a chain brand specializing in Sichuan hot pot, founded by Zhang Yong.

On March 25, 1994, in Jianyang City, Sichuan Province, the first Haidilao was officially opened. On May 17, 2018, Haidilao submitted its listing application to the Hong Kong Stock Exchange. On September 19, Haidilao set its final offering price at HK \$17.80 per share. On September 26, Haidilao officially landed in Hong Kong's capital market. In 2020, Haidilao's net profit was 309.3 million yuan, down 86.8 percent year on year. On November 5, Haidilao announced that it has decided to gradually close about 300 Haidilao stores with relatively low customer flow and lower business performance than expected on December 31, 2021.

On April 14, 2022, as a supplier in Shanghai, Logistics recovered more than 30% of its supply chain under Haidilao's ecological territory. Haidilao currently has 18 stores and 2 outbound stations in Shanghai to resume online business.

3. Performance before COVID-19

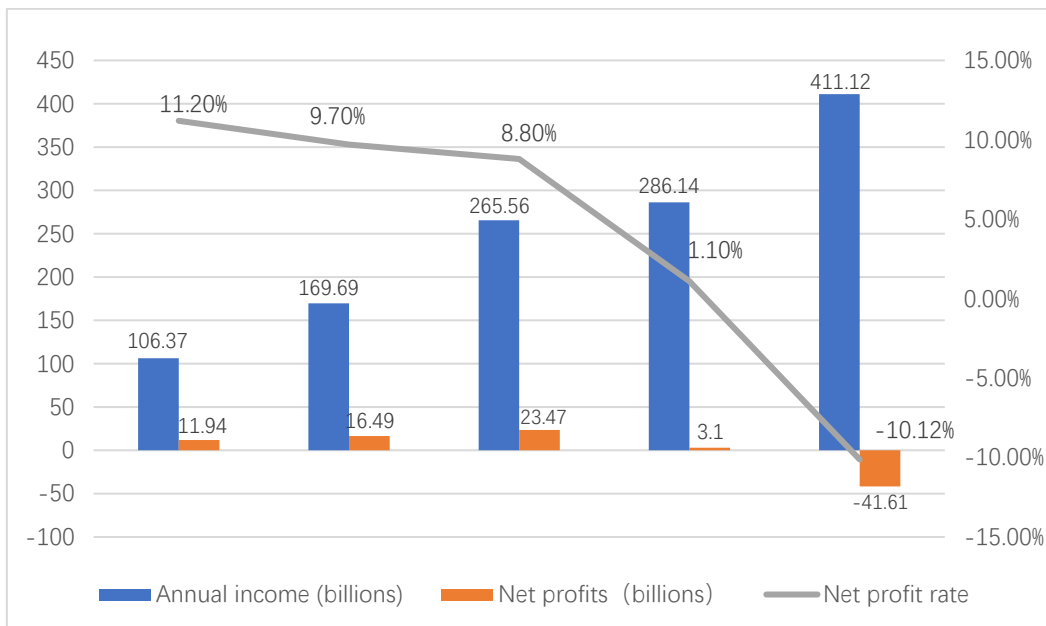


Fig 2. Haidilao's annual income and changes in net profit from 2017-2021

In order to compare operating conditions in Haidilao before pandemics and during the pandemics, share price, annual income, net profits, EPS(Earning per share), and total assets are considered. Figure 2 mainly refers to annual income and changes in the net profits of Haidilao from 2017 to 2021. Before the pandemic, from 2017-2019, the annual income of Haidilao increases substantially from 106.37 million to 265.56 million and the net profit increased from 11.94 million to 23.47 million. However, the net profit rate decreases from 11.2% to 8.8%.

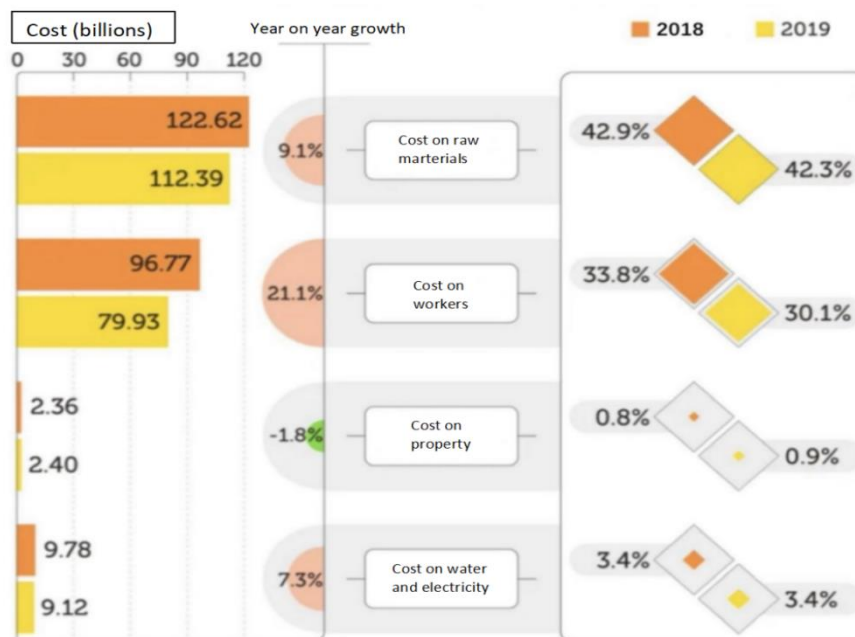


Fig 3. Haidilao's biannual report from 2018-2019

According to figure 3, the cost distribution of Haidilao is shown which consists of the main cost of raw materials, workers, water and electricity, and property. Through calculations, the cost decreases from 2018-2019 as Haidilao spent 231.53 billion during 2018 and 203.84 billion in 2019. In the diagram, the cost mainly falls on raw materials and workers which takes up to 219.39 billion in 2019.

Besides that, costs on other aspects are proportionately lower. Furthermore, the cost of workers' year-on-year growth rate takes up the highest proportion which indicates that the cost of workers increases more rapidly than other components.

The share price of Haidilao from 2018-2022 is studied. Before the pandemic, which is the period from 2018 to 2019, the share price generally increases from 19 per share to 38 per share which indicates that the share price has increased 50% during this period.

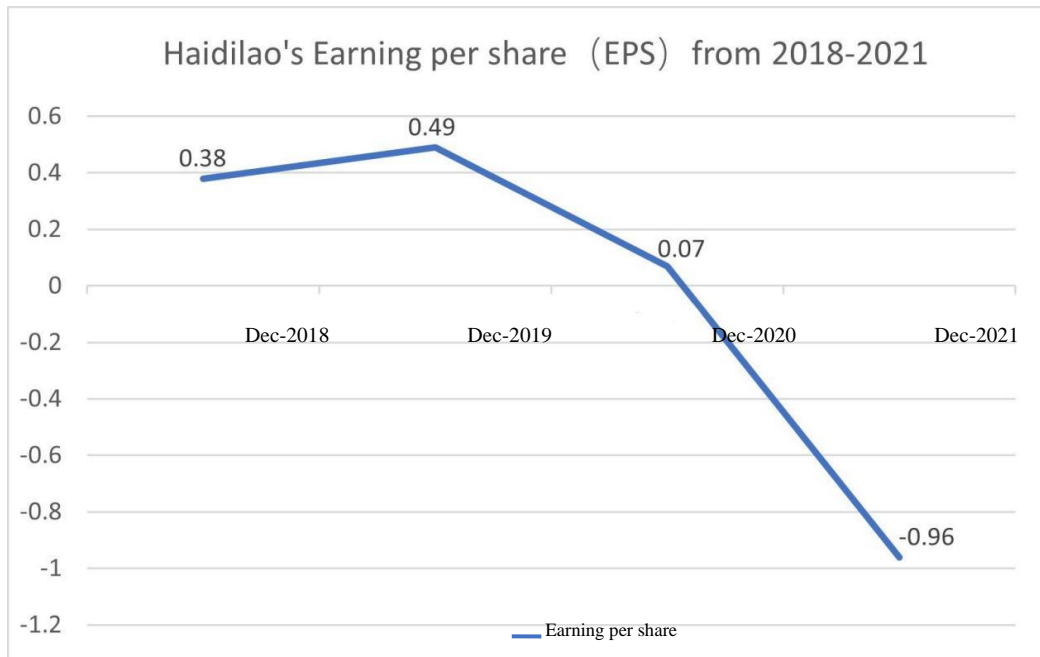


Fig 4. earning per share of Haidilao

Figure 4 refers to earnings per share of Haidilao from 2018 to 2021. From the figure, the EPS generally shows a decreasing trend from 2018-2021. Before the pandemic from 2018 to 2019, the Eps increases from 0.38 to a peak of 0.49, indicating that earnings increased by 22.4%.

4. Performance after COVID-19

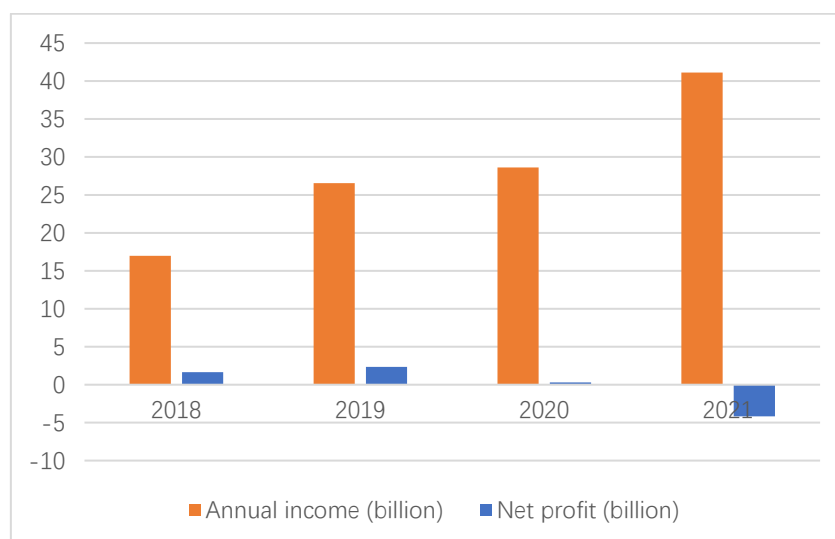


Fig 5. 2017-2021 Haidilao annual income and net profit

In fig 5, the total income of Haidilao from 2020 to 2021 sustainably increases. However, Starting from 2020, the retained profit decreased from 23.47 to 3.1 and fell to -41.61 in 2021. It means that

even though there is still a high income in 2021, the cost exceeded it and brings loss to the business. The fact might be caused by further expansion of Haidilao and the impact brought by the covid-19, which leads to higher prices of raw materials, higher costs of transportation due to the potential pathogen on goods, and labor loss due to the lockdown.



Fig 6. 2021 Haidilao year-to-year cost growth

According to fig 6, the costs of Haidilao in different aspects during 2021, all of the cost growth over time has shown a positive number surrounding 50%, which means the total cost in 2021 has increased by half compared to the last year. Surprisingly, the loss of close of outdoor services has increased by 1413.2%, it was multiplied by about 15 times. The enormous rise in loss is due to the occurrence of the pandemic and the lockdown policy imposed by the government which create a huge loss for the company.

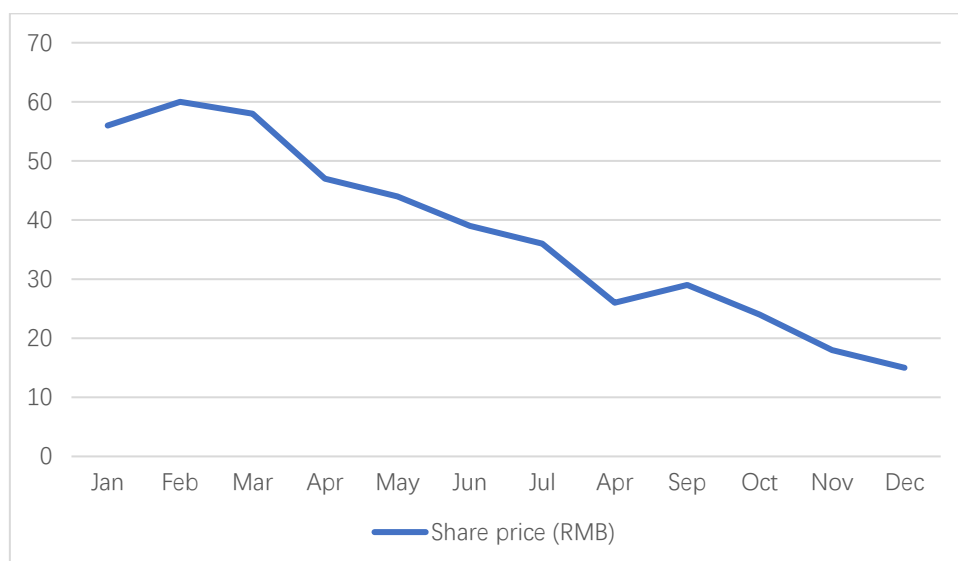


Fig 7. 2021 Haidilao share price

Referring to fig 7, in the first quarter of the graph, the share price remains above 30, but after that, the price suddenly decreases below 20%. There is an apparent fall in the share price which means that Haidilao is in financial difficulties. And the time period is during the lockdown brought by the covid-19 pandemic.

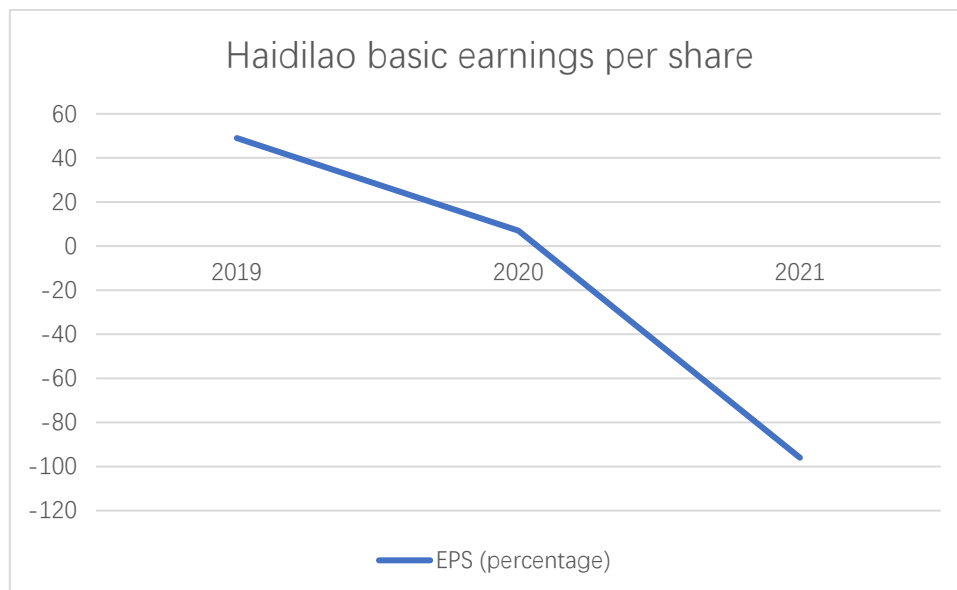


Fig 8. Haidilao's basic earnings per share

Not only the share price has been affected by the pandemic or the loss of Haidilao, but also the earnings per share. Starting from 2020, the earnings decreased incidentally 2020 from 0.49 to 0.07. Furthermore, it fell to a negative number at -96% and brought unmeasurable loss for the stakeholder. It indicates the immediate recession of the Haidilao business (fig 8).

5. Discussion

Before the outbreak of covid-19, the annual income of Haidilao increased substantially from 106.37 million yuan to 265.56 million yuan and the net profit grew from 11.94 million yuan to 23.47 million yuan. The cost dropped from 231.53 million yuan to 203.84 million yuan in 2018-2019, mainly declining in raw materials and workers. The share price rose from 19 per share to 38 per share and the earnings per share consistently surged from 0.06 to 0.49. However, after the outbreak of covid-19, Haidilao has been impacted profoundly. Even though the annual income continued to increase, the net profit dropped significantly, from 2.347 billion yuan to 310 million yuan in 2020, ultimately decreasing to -41.61 million yuan in 2021. The cost even exceeded their income and led to losses for the company. What is more, the share price fell below 20%, though it remained above 30, and the earnings per share reduced from 0.49 to 0.07, showing that Haidilao had such an enormous loss caused by the pandemic.

6. Conclusion

In this difficult and challenging period, the outbreak and spread of COVID-19 has brought several serious impacts on numerous industries and has dragged down the global economy. There are several aspects and indexes that have been influenced profoundly: the cost of production and the CPI have increased, and the real GDP and annual income have fallen. Therefore, it is important to explore the effects of the pandemic. This research focuses on the catering industry and chooses China's Haidilao as a case study, using the method of data collection. In China, the catering industry has entered into a new era, with various investments from both domestic and international, and enlarging scales of restaurants. According to the data before the pandemic above, Haidilao seems to stay in a profitable state, having an increase in the net profit from 11.94 million yuan to 23.47 yuan and an annual income from 106.37 million yuan to 265.56 million yuan. However, during the pandemic, the net profit declined substantially, from 2.347 billion to -41.61 million yuan even though the annual income still

increased. Therefore, Haidilao has been at a loss due to influences from the pandemic and preventive measures carried out by the government.

This study identifies the negative effects to the world caused by COVID-19, describes the performance of the catering industry before and during the pandemic, and indicates that the Haidilao, the case study of this paper, is at a serious loss. Those can help future decision-makers to take further measures in order to aid this industry to revive and allow those decision-makers to establish more plans to reduce the negative impacts on the catering industry.

It is necessary to mention the limitations of the study here mainly because there is a lack of time and access to resources and information. This paper utilizes quantitative analysis as a research method, which is particularly useful, but it will be better if there is more time to look over more references and conduct more data analysis and it will be more intriguing if this study method can be adapted to other different perspectives on the event. Further research can be inspired by this study and take further steps to investigate more impacts on the catering industry from the pandemic and strategies that this industry uses to recover.

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