

Analysis of COVID-19's Effects on China's Catering Industry and the Optimization of Marketing Strategies

Xinyu Ji^{*, †}

University of Toronto Mississauga, ON, L5L 1C6, Canada

*Corresponding author: 100956@yzpc.edu.cn

Abstract. The repeated outbreak in 2022, economic ups and downs, and weak consumer spending under multiple adverse factors, such as the food and beverage industry, is a big blow: raw materials and artificial cost rise, traffic fell 90%, mass unsubscribe accommodation, wedding banquet, conference, rapid eat-in downturn hit, and many other factors, lead to food and beverage business difficulties, make a lot of food is especially difficult. The outbreak of a new type of coronavirus pneumonia significantly influenced the world's economy. Small micro-enterprises, as the main mode of operation of the catering enterprises, have experienced four months of winter. They are faced with less income online operation, the effect not beautiful, supply chain difficulties, and many problems such as shortage of cash flow. Hence, If catering businesses don't actively work to strengthen their crisis management skills, they'll suffer substantial losses that could even disrupt their regular business operations. So it is a very important topic to study the current situation of the catering industry.

Keywords: COVID-19; China's Catering Industry; Marketing Strategies.

1. Introduction

A sudden outbreak broke the people's originally quiet and peaceful life. Many people think the biggest industry has affected the restaurant industry in the past two years. Originally in China, during the Spring Festival, the catering business should be the most prosperous and busy. Still, because of fear of causing clustering COVID - 19 infection, many restaurants closed, and hoarded ingredients are wasted. More than 70 percent of the stores shut down, and the resumption of food enterprises stores only about 10 percent. Many restaurant businesses shut down during the outbreak in order to stop losses due to the abrupt fall in client sources and numerous stringent regulations. According to Figure 1, of the single-store catering businesses, 18% are still open for business, 75% have closed, and 7% have started operating again. When it comes to chain restaurants, the average percentage of locations that have not yet closed for business is 26%, the average percentage of stores that have already done so is 73%, and the average percentage of stores that have already done so is 12% [1].

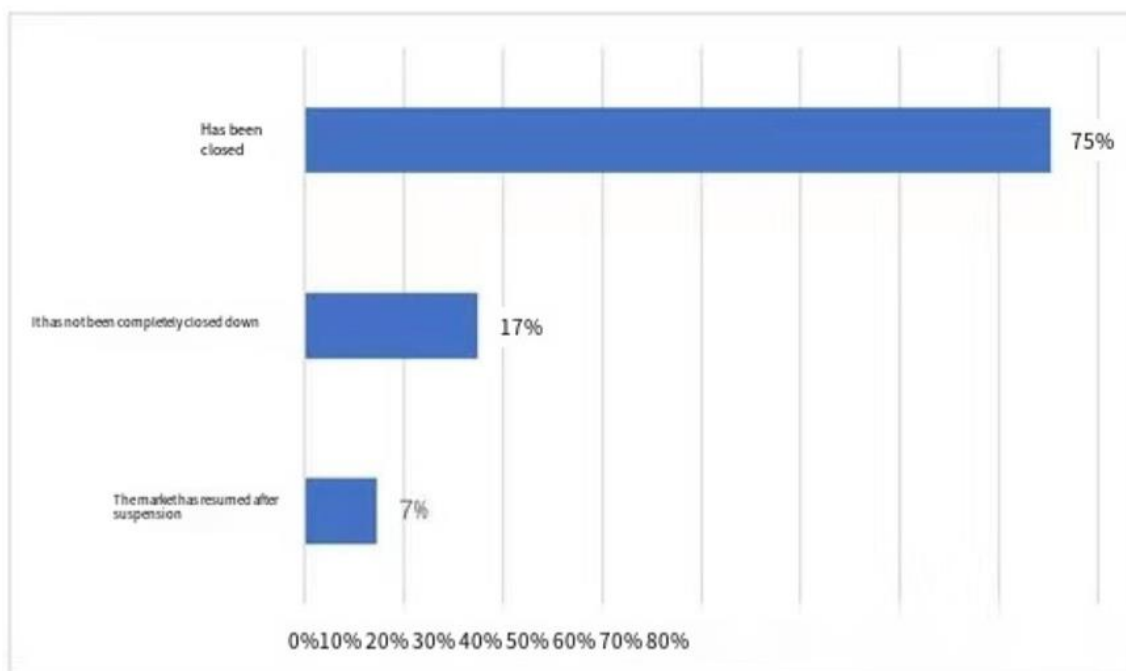


Figure 1. Distribution of business conditions of single restaurant food enterprises

According to a survey of current food enterprise daily turnover, the average percentage of the same period last year was 9%, 65% of that period's food enterprise turnover was 0.7%, and 25% of that period's food enterprise turnover was roughly 13%. The turnover at this time in relation to the same period last year, more than 90% of the food accounted for 71%, and 80%-90% of the food accounted for 12% [1].

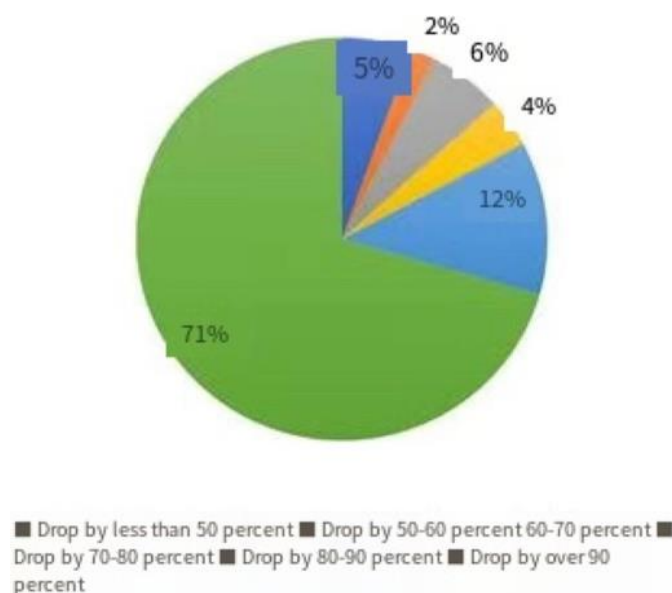


Figure 2. Distribution chart of the turnover decline of restaurant enterprises

To maintain regular operations during the Spring Festival, The unexpected COVID-19 epidemic will cause food and beverage retailers to stock up on a lot of the veggies, spices, meat, frozen goods, and stores directly closed. Frozen goods with condiments are good and can be kept for a while, however, if they can't be sold, veggies have a shelf life and will perish.

According to the previous practice, before the Spring Festival, catering enterprises will settle most of the payment for goods and employees' wages. And a large amount of cash on hand is less because the Spring Festival is the peak of business, and cash flow can be quickly replenishment, which will

not affect the turnover of funds. Most hotels choose the Spring Festival as a reason for the city but also hope to take advantage of the Spring Festival period to make a lot of money. But COVID-19 has thrown plans into disarray, catching caterers off guard and struggling with cash flow and operations. There are ongoing cost challenges for catering businesses. On the one hand, the majority of the catering industry has had to shut down due to the pandemic. However, it still needs to pay for rent, labour, and fixed-asset depreciation.

Zhihu analyzed that COVID-19 analyzed Haidilao's turnover loss of 4.5 billion yuan and the coping strategies of China's catering industry [2]. Cost pressure, capital issues, and supply chain shock are the three main ways that the epidemic has affected the catering business. Catering businesses have resorted to internet operations in response to the epidemic, which has the combined effects of raising expenses and lowering revenue. Due to the unsustainable cash flow, some small and medium-sized catering businesses will have to close or shut down in order to raise sales through delivery platforms or private domain traffic channels in order to resolve the business difficulties brought on by the suspension of business. Leading businesses in the sector are likewise under more stress with regard to cash flow. They might still be required to implement measures like pay reductions, store closures, and layoffs despite receiving bank credit or outside financial infusions.

Guo proposed the catering industry's status and future development prospects under the epidemic [3]. The epidemic outbreak caused people to stay indoors for fear of being infected, and fresh produce was sent to their homes to help reduce some of the demand for eating out. People's consumption demands steadily changed as a result of the simultaneous decline in income and half-year-long epidemic containment. People believed that eating in was more cost-effective, secure, and safe. The decline in catering demand would surely cause some catering professionals to leave their jobs and begin looking for alternative employment, which could result in the loss of many skills. The restaurant sector has been thrown into a very challenging recession as a result of all of this. With the promotion of the Chinese government's programmes and other causes, there will undoubtedly be a wave of consumption recovery after the pandemic is gone. The rate of consumption will return to normal, giving vigour and vitality to the consumer sector. However, it will take a long time for small and medium-sized catering enterprises that have suffered huge damage to recover to their original state.

Most articles mainly studied the epidemic's impact on the turnover of large enterprises and strategic measures, such as Haidilao. In contrast, few articles studied the epidemic's impact on small shops. The author believes that most people cooked at home and ate alone during the epidemic. During this period, many people must have been used to sleeping until noon and then getting up to cook food, so they directly missed breakfast time, which would greatly impact breakfast shops. During the outbreak, many volunteers are giving themselves a line in the epidemic because they volunteer from eight o'clock in the morning to go to work directly to 6 PM, most fast food lunches. After the outbreak, the volunteers did not need fast food, but because of the students' and social workers' demand for fast-food, fast-food sales will only grow. The most worried now is not after the epidemic but during the epidemic. If the restaurants did not help themselves and survive this period, then most restaurants may close down, whether it is breakfast or fast-food restaurants.

First, the author analyzes the epidemic's impact on the turnover of large enterprises and further summarizes the challenges and dilemmas large enterprises face. Secondly, the author analyzes how the epidemic affects the development of small enterprises and how small enterprises cope with the plight of low customer flow. Finally, the author will highlight how large Chinese enterprises and small stores develop perfect marketing strategies to earn more revenue.

2. Methods

China's catering industry is dominated by small and medium-sized firms, which have minimal chain and market concentration. The China Cuisine Association estimates that there were more than 8 million catering establishments in the nation in 2018. Meituan Research Institute survey statistics

show that in the first quarter of 2019, 95.9% of catering firms had fewer than 10 employees, 82.5% had operation areas of less than 100 square metres, and 86.5% were single-location stores. Because there are so many small and medium-sized catering companies, the market concentration is low and the scale influence on the industry is not readily apparent. In the event of escalating industry competition, SMEs in the catering sector will face issues such limited capacity for customer acquisition in a single location, a low rate of online platform adoption, and generally limited operating capital. China's top 100 catering companies only account for roughly 7% of the catering market, according to the annual report of the Chinese restaurant industry. Small and medium-sized firms continue to make up the majority of the Chinese catering market at the moment, with little standardisation and high market concentration. Many well-known brands and catering companies have existed in the market for catering services now for over 20 years, and years of arduous work have resulted in some initial capital accumulation. However, the total industry output value has surpassed approximately \$5 trillion through mass production. In terms of a single firm, during an emergency, they mobilise social resources and capital markets; however, it is not clear, and even very fragile, how they might increase their capacity to mobilise funds. Although there has been some accumulation, the actual asset situation has not much improved, and catering firms are to blame. Catering companies struggle to maintain their savings in the face of an outbreak as large as the COVID-19. The majority of catering businesses have an unbalanced profit model, according to the reality of the sector. More than 95% of catering companies have staked their whole future on the sale of restaurant fare. The fragility of this type of corporate organisation ultimately results in an inability to handle risks and emergencies. When faced with a situation of significant ambiguity, it must shut the door.

3. Results

The national economy of China is expanding quickly, raising the average household income and driving up demand for catering from customers. The turnover has continued to expand at a rapid pace. Statistics show that China's catering business has grown at a rate of roughly 18% per year over the past five years, which is double the growth rate of the GDP. The whole catering market can be said to be developing well. Due to the outbreak, the majority of catering businesses closed their locations, which caused a sharp reduction in operational revenue, a significant increase in costs, and tight cash flow. The majority of chain catering businesses opt to conduct non-contact takeaway, reservation-type group purchases, semi-finished product sales, and other businesses in light of the closure of stores and the decrease in residents' travel. The demand for takeout has increased significantly. In addition to using existing takeout platforms and WeChat communication platforms, some enterprises have urgently developed their own online sales platforms and expanded booking group buying, semi-finished products sales, food materials sales, and other businesses to make up for the impact caused by insufficient customer flow with the help of diversified development advantages. Due to the outbreak, the traditional and single profit pattern, which was already unable to satisfy the demands of the current management, had to switch from offline to online mode. Utilizing a range of expert internet marketing channels, revamping the organisational structure, effectively allocating human resources, and responding to takeout demand, scheduled group purchase demand, and sales of semi-finished products in a variety of ways helped to diversify consumer demand. It is even possible to transform the products of in-room food into online sales products through industrial production.

Under the impact of the epidemic, chain restaurants not only have to bear a large number of labor costs and epidemic prevention costs but also undertake the task of supply protection, which is under great pressure. Several interviewed chain catering enterprises said that the current catering business risk continues to increase the lack of market confidence.

The National Bureau of Statistics said that from January to April 2022, the catering business earned 1,326.2 billion yuan, a decrease of 5.1%; restaurants larger than the permitted size earned 306.2 billion yuan, a decrease of 5.6% from the previous year. The income of the catering industry in April

was 260.9 billion yuan, down 22.7%; The revenue of catering above the designated size was 65.3 billion yuan, down 24% year on year [4]. With the industry's overall decline, the costs of rent, raw materials, and labor are hard to be compressed, and the passenger flow is sharply reduced. These make the business plight of food companies more serious.

In the author's view, if one thing has changed most since the pandemic, it must be how people live. The biggest change is that online catering is taking a major share. Under the epidemic, takeaway food companies have become a lifeline. Takeout is one of the indispensable means of survival for modern young people. For consumers, most young people and office workers rely on takeout to survive. For catering companies, takeout is a lifeline to their survival. The recurrence of the epidemic has frequently blocked restaurants and food, and the cost of water, electricity, and rent has been high, but the income has been declining, making ends meet. In this situation, online food delivery has become a lifesaver for many people.

Haidilao, a well-known hotpot brand in China, has developed a takeout business to save itself during the pandemic. Like its Internet celebrity, Haidilao has been selling everything except hotpot since its online restaurant was banned. Haidilao sells breakfast, sell box lunches, sell vegetables, sell group meals. These online businesses have made it difficult for many of Haidilao's stores to survive the pandemic.

As a leading enterprise in the industry, Haidilao also reflects the trend and wind direction of the whole industry to a certain extent. No matter the large chain restaurant enterprises or single stores, they have begun to develop online.

Since the COVID-19 outbreak, the catering industry's financial status has suffered greatly, potentially having a dramatic impact on its survival and growth. First, the economic performance of enterprises has declined significantly. Due to the continuous tightening of prevention and control measures, large-scale dining activities such as dinner parties, conferences, and wedding receptions have been strictly restricted. The personnel flow has been restricted, which has sharply reduced the cross-regional. Which directly resulting in the sluggish business conditions of China's catering industry. The catering industry has high input costs, especially for large and medium-sized catering service units. The rental fees of business premises, salaries of senior executives, salaries of employees, hydro costs, are all large expenses. The enterprise management burden is heavy in the relatively depressed catering business situation.

4. Discussion

Currently, catering consumption contraction and downturn is the biggest difficulty affecting the development of the catering industry. The government should do everything possible to encourage and stimulate residents to consume food and beverage. In areas where the risk of COVID-19 is low, China can appropriately relax the restrictions on personnel exchanges, expand the number of people and the number of tables allowed in restaurants, and increase the number of business customers. In addition, the government can also consider issuing certain food and beverage vouchers to encourage people to spend. In the area where restaurants are concentrated, the government can use all kinds of road resources and open spaces to reasonably set up temporary parking Spaces for dining. The government should encourage catering enterprises to develop the night economy actively. This supports the delayed operation at night and gives subsidies to enterprises' operating costs at night.

For specific suggestions, the Chinese government can refer to the practice of Chongqing Municipality to set up a "catering special support fund" or "catering difficulty relief fund" to relieve the financial pressure of enterprises from various channels and help potential enterprises survive [5]. The government should increase the supply of all kinds of credit loans, provide mortgage-free and guarantee-free credit loans to small and medium-sized catering enterprises, and help them avoid the risk of a capital chain break.

In one case, takeout cannot relieve the pressure and has a high commission. With the closure of in-service, the overall business of catering has suffered a decline. The remaining restaurants are

basically without in-service, only takeout, which is limited due to insufficient capacity. Suppose the income from takeout cannot reach the balance. In that case, small enterprises can negotiate with the landlord and ask if the landlord can reduce the rent during this period (not during the dining period), because this is caused by irresistible factors. Most business people signed a lease contract with the landlord when renting a shop, which stipulated that if the business is closed due to irresistible factors, a part of the rent can be reduced [6]. Even if there is such a rule, there are still some landlords who will not give business rent reductions, the author suggests that as soon as possible, to withdraw the store timely stop loss. The author should especially remind individual restaurant owners that the small catering industry is losing money every day. However, they still have to hold the heart of luck, “wait, when the epidemic is over, and the restaurant will not lose money”. When will this wait end? If there is an accident in the middle of the business, may wait longer, some restaurant people before because of this idea of the final loss of blood. Therefore, the author suggests that according to their actual situation, calm and objective analysis of the difficulties they are facing, timely cut losses to maintain cash flow, and also can develop and profit.

In another scenario, takeout opportunities emerge during the pandemic. Orders for high-end merchants in first - and second-tier cities have surged. As some returnees return to their work cities, citizens avoid going out and eating at home instead. Leading to the popularity of those years of business takeout orders surge. Compared with the previous year, the order volume of most customers in catering has doubled, and the unit price of customers has increased. To some extent, the delivery business has relieved some restaurants' pressure of empty meals. It's like what SARS did to China's early e-commerce industry (Taobao, JD.com, etc.) [7]. The outbreak has had a significant impact on the food delivery sector as well. In order to build brand equity and decrease total loss, prominent businesses are now emphasising the importance of external sales.

The latest news on January 31, 2022, Ele. Me launched the ultra-fast online function so merchants' online applications can be approved within one day at the earliest, improving the efficiency of online delivery [8].

At this time of the epidemic, consumers are very sensitive, ordering users to consider food safety far more than the price factor. Businesses can use in-store posters, display goods, and other ways to show restaurant food safety fully. Such as in-store disinfection and temperature detection [9-10].

5. Conclusion

The epidemic named COVID-19 has not only changed the way of life that people usually familiar with, it also impact the managers and the employees who work for the restaurants as a catering business.

First, the significance of work value: During the epidemic, many small and medium-sized restaurants had to choose to reduce expenses and staff. In this case, can stick to the caterers, no matter for the boss or employees, can have a job to continue the catering business, is a how brave thing.

Second, the significance of hard savings: due to the change in the business model, both bosses and employees are affected by it. They work hard, carefully control every step, save costs, and hope to complete the work more efficiently.

Third, the significance of keeping pace with The Times: Under the epidemic, the business model of catering is changing rapidly, and the alternating between online and offline makes much traditional catering confused and unable to adapt to the update of the market, which makes it more and more difficult to operate. Learning how to keep pace with The Times will determine the way forward.

Online catering delivery services have changed the way the catering industry is organised and opened up new avenues for growth. Many food and beverage merchants' sales halted after the new crown pneumonia outbreak, and they started to see how crucial multi-channel expansion was. Online catering takeout services are facing new development chances, and online has become China's catering sector development's new norm as a result of takeaway merchants' quick growth, which is anticipated to peak in 2022. Higher standards for food safety, production safety, distribution safety,

and other sectors of the industry will be implemented following the pandemic. It will hasten the adoption of unmanned deliveries and other innovative technologies at the same time. Takeout is expected to progressively become a crucial component of urban infrastructure and a vital conduit for preserving people's means of subsistence.

References

- [1] Official account of Xinhuanet, China's Catering Industry Development Status and Trend Report under COVID-19, 2020.03.03, <https://www.xinhuanet.com>.
- [2] Touziyinhehui, Haidilao lost 4.5 billion yuan! What should China's catering industry do under the epidemic? 2022.03.29, <http://www.zhihu.com/>.
- [3] Meng Guo, how should the catering industry cope with the epidemic? Analysis of the current situation and prospects of the catering industry under the epidemic in 2022, 2022.04.27, [https:// chinairn.com/](https://chinairn.com/).
- [4] Lixi Zhou, what are the new trends in the catering industry in the epidemic era? 2022.05.04, <https://canyin88.com/>.
- [5] Tongruijiu, Subsidy policies and application conditions for restaurant and lodging chain operation projects in Chongqing in 2022, 2022. 02.10, <http://www.tongruijiu.com/>.
- [6] REDNET, the lawyer said: compound force majeure factors during the epidemic can reduce the rent, 2020.02.14, <http://www.rednet.cn/>.
- [7] Internet bandits, SARS in 2003 made e-commerce and upended traditional retail, 2020.01.30, <http://www.xueqiu.com/>.
- [8] Fast technology, Ele. me launched the "extreme online service", the fastest day for merchants to open the delivery service, 2020.01.26, <http://www.my drives.com/>.
- [9] Han Yong. A few ideas on how small and medium-sized catering businesses might reduce costs in the "post-epidemic era" [J]. Taxation and Finance in Shanxi, 2021 (05): 50 - 52.].
- [10] Discussion on Breaking and Recovery -- 2020 China Catering Marketing Power Summit was successfully held in Chengdu [J]. Restaurant World, 2020 (08): 20 - 25.