

COVID-19's Impact on Catering Investment of Venture Capital in China

Jiaming Jin*

*School of Business
University College Dublin
Belfield, Dublin 4, Ireland*

**Corresponding author. Email: jin.jiaming@ucdconnect.ie*

ABSTRACT

This article aims to provide the public and practitioners of catering and venture capital an analysis of catering transformation under COVID-19 pandemic and capital intervention via statistics from catering and venture capital market, in combination with second-hand information from publications and new media in the industry. The research shows that COVID-19 pandemic caused loss to catering business in China. At the same time, Chinese venture capital market was in depression, too. Now they have recovered from the strike of the epidemic. The catering industry has developed a business model combining supply chain and online to offline food distribution platform to shorten and simplify the on-site food process. This business model may bring profits to new entrepreneurs looking for investors. Statistics show that the investors are attracted and some investment cases have been completed. For catering, enterprises realize the possibility of challenge in financial stress, cooperating with venture capital institutions is a choice. Catering is not considered to be in the mainstream options for venture capital investors, so completely relying on investment is not rational. The balance between simplified business mode and quality, is also a balance between investment and market. Only improving management and reducing unnecessary cost is a suitable method.

Keywords: COVID-19, Venture Capital, Catering, China

1. INTRODUCTION

COVID-19 is an infectious pneumonia caused by SARS-CoV-2, it spreads all over the world. China, where the first known case was diagnosed, had a high-speed growth in economy for over thirty years. COVID-19 pandemic stopped the expansion with not setting goal for increased extent of GDP in 2020 by the government [1]. Both manufacturing and non-manufacturing industries face a sharp decrease in business because of blocked transportation which repressed the operation of supply chain [2]. Food's supply decrease is caused by blocked transportation on the possible spread of the virus via physical contact among humans and of surfaces and objects with this virus [3]. SARS-CoV-2 is not food-borne, the major transmission of the virus are respiratory droplets, which are likely to spread in crowded public space [3]. Catering provides food service on site, the stores are risky for consumers because basically the sites are public places and provide the possibility of infection.

Another point is that no one is able to eat with medical mask on in normal circumstances because the protection is not continuous. This situation has reduced customers' propensity to consume stores. In the first quarter of the influenza pandemic, each domestic catering company or individual operator lost an average of nearly 20 million yuan [4].

Venture capital (VC) looks for growth-oriented companies that in early stages, providing equity-like financing for the emerging companies. Traditionally, VC investors focus much more on information and communications technology and life science firms. These firms have valid technology barriers providing unique advantages over competitors in the market, but now the investors turn to catering business because the improved supply chain and mechanization of catering declines the risks of uncertainty in catering [5].

The pandemic's influence on catering business and VC's perspective is to be specifically analyzed, strategy and critical discussion will be described in combination with both sides' situation under the pandemic.

In the time before COVID-19 epidemic, it has been a common sense that people are concerning about food safety. Hence catering is a focus of public attention. This article provides an analysis about transformation of catering industry under the pandemic and capital intervention so that the public would know what the industry they care about is going on. Moreover, catering practitioners and capital investors may also benefit from the analysis.

2. CATERING

2.1 Status of the Industry

Catering business suffered losses under the pandemic, but recovered in 2021 with fierce competition. The beginning of COVID-19 pandemic covered Chinese Spring Festival from 2019 to 2020. This traditional festival normally generates a busy season for catering business, but transportation restriction from China's government repressed both supply chain and customers' orders, caused a loss for around 500 billion yuan totally during the Spring Festival in catering business [4]. According to China Cuisine Association's estimation, the orders during the Festival declined over 90%, based on the survey by the Association, 93% of catering firms chose to close their stores during the pandemic, the whole industry was in a valley period [4].

In 2021, catering industry has a recovery. According to National Bureau of Statistics of China, the revenue of catering was 2,171.2 billion yuan, up by 48.6% in comparison with 2020, almost the same as the first half of 2019 [6]. The recovery is a result of China's positive control of the pandemic. The newly confirmed cases in China every day are largely lower than the global situation to a great extent [7]. For catering entrepreneurs, both internal and external aspects turn positive with the recovery of the pandemic.

2.2 External Environment

To catering entrepreneurs, the external environment is out of the industry because it is necessary for the entrepreneurs to consider supply chain of its business. The very macro external environment now turns to normal situation, which can be also considered being recovered to the level before the pandemic. The reason is that statistically the first half of 2021's revenue of catering has become the same as 2019's. One thing is different from that before the pandemic, that is, food distribution from online to offline (O2O), which is on-demand distribution in most cases, has become a huge market.

The pandemic made online food delivery industry huge. At the end of 2020, on-demand food deliver has almost 500 million users in China, with the number of 17.12 billion orders, having created a transaction

volume of 835.2 billion yuan [8]. It has been common to see food delivers of different takeout platforms driving around in China. The coverage of on-demand food delivery is big, and there is competition in such a large market. The competitions push the platforms and stakeholders behind them to provide continuous optimized services which enable catering stores to be more connected to the internet. An O2O food delivery platform offers information of catering stores, comments on them, and other data like monthly sales, making the whole catering industry more transparent in comparison with traditional catering because a completely offline catering store spreads its words of mouth merely via traditional medias like magazines, newspapers, talking, and television at most.

2.3 Internal Environment

Internally, restaurants and their supply chains are highly connected now. In the past, traditional mode is that food materials are processed by restaurants and finally become meals, which are less dependent on the supply chain than now. Most parts on the process of food are concentrated in the catering store. This mode requires skilled cooks and better transparency for customers not to worry about food safety. Some restaurants provide open kitchens or real-time monitoring screens to let customers view the process, it is hard for customers to understand the standardization of products and the transparency of the process. The method above does not really fix out customers care about food safety, and the cost on cooks and reform of restaurants is inevitable. Another traditional problem is that restaurants have limited range of customers, mostly is several blocks of streets, and the comments' spread is also limited under traditional media. Therefore, the population of customers is small.

The supply chain for catering now is able to provide pre-processed food under preservation technology, with cold chain distribution. Under such supply, food and ingredients have been partly processed, the time of onsite process is shortened and the standardization is improved because the pre-processed food is able to be more strictly supervised, the food is now a kind of product in the market. In combination with online to offline (O2O) food delivery platforms, the location of the catering store does not restrict customer flow. Moreover, a mature and complete supply chain system in catering provides the possibility of franchised catering mode [5].

2.4 Conclusion

The fierce competition in the catering industry is common. Before the outbreak of the epidemic, in 2019, there were nearly 10 million restaurants in China, opening more than 3 million restaurants every year,

closing nearly 3 million, and one third of the shops were driven out. This is mainly because catering business require offline places which are considered as heavy assets no matter the firm bought or leased the assets, the cost of assets and management is often a challenge [9]. In addition, an effective management structure also makes a difference because cost depends on corresponding markets under macro environment. COVID-19 pandemic gave a strike on catering and its supply chain, caused big losses. Thanks to Chinese government's control, the pandemic turns positive, catering industry then recovered to the level before the pandemic, but the competition in the industry makes entrepreneurs hard to maintain development.

3. VENTURE CAPITAL UNDER COVID-19

3.1 Status of the Industry

Venture capital market was in depression under COVID-19 pandemic, the market also recovered with its attention to investing catering business. The epidemic appears to have affected the venture capital and private equity (PE) markets. Based on China Venture's report, the depressed state of the market was described in newly established fund amounts and the number of transactions in VC and PE. There were 390 funds and 401 funds established in November and December, 2019, respectively, but there were only 227 funds established in January of the next year, significantly decreased by 43.38% month on month. At the same time, there were 101 transactions in VC market, decreased by 84.44% compared with transactions in January 2019, 72 cases in PE market, decrease by 72.22% in comparison to cases in the first month of last year.

The pandemic made an impact on real industry more, like catering business, but the data in fund raising market shows that the market is damaged by the pandemic [10]. Fund raising market recovers after the pandemic just like catering business. At the first half of the year 2021, newly established funds were 3521, significantly increased by 73% in contrast to the first half of 2020. Investment scale in VC and PE market was 97.3 billion USD, increased by 52% contrasted with last year, the data collected provides an extent of how the market recovers [11]. The recovery data also shows that the first half year of 2020 was not optimistic or the increase will not be a big extent, but the market recovers together with catering business, and catering has drew VC's attention.

3.2 Catering is Valued

Venture capital's attention to catering investment is more than before and has priority than other industries. In terms of time, catering investment had a boost. In July 2021, the investment in catering brands was 962

million USD, accounting for more than 60% of the consumption upgrading industry. Compared with last year, the transaction scale increased by 1.58 billion and 8.06 million, an increase of 92% [12]. The whole scale of capital investment was 17.619 billion dollars in July 2021, consumption upgrading investment took a percentage of nearly 8.6% of the market, having a bigger occupation than artificial intelligence (AI) investment whose occupation was nearly 7%. AI investment scale was 1231.7 million dollars, increased by 80% compared with last year, in addition, investment on internet technology industry was 1848.55 million dollars, the percentage was about 10% [12]. As a representative part of consumption upgrading business, catering has an investment scale which is close to AI and internet. Both AI and internet are more technical than catering and preferred, so catering is now considered as an important business to investors from VC.

According to the statistics before and after the pandemic, the venture capital market has recovered from the depression and increased by 50% on the basis of the scale during the pandemic, although the overall scale is not as high as before the pandemic. The difference is that the investment scale of the catering industry accounts for a larger proportion than before, which shows that VC attaches importance to the catering industry. Even under normal circumstances, the technology industry should be the focus. Facts have proved that the catering industry may be standardized and large-scale, and has huge potential profits to meet the profit goal of venture capital.

4. STRATEGY & CRITICAL DISCUSSION

4.1 New Catering Business Mode

Catering establishments can now cooperate with the supply chain to provide finished products in a short period of time. The progress of this standardized on-site process makes franchising possible and enables catering enterprises to provide a satisfactory profitable business model for venture capital. Increased investment on catering business by VC showed the possibility that even catering has a potential to be profitable enough for VC investors to bet, top institutions like Sequoia China and IDG China has invested in catering [11].

Catering firms change one third every year [9]. New catering entrepreneurs have chances to survive in competition, setting a standardized and profitable mode is a proper way to cooperate with investors because generally catering is not an attractive industry to VC. The business mode requires external cooperation with online-to-offline (O2O) food delivery platforms to make use of public data like the rank of restaurant. Online platforms make catering sites more widely known so that information like comments of a restaurant will not

be restricted a lot anymore. The platforms open a bigger market for catering entrepreneurs.

As an internal part of this model, the supply chain contributes the most to the pre-processing and on-site processing of more fresh food and raw materials. The cooperation with the supply chain reduces the time cost and the uncertainty of products and meals. The core points to the mode is to cut the cost for onsite food process, no matter for monetary aspect or time length. With such standardized products, in combination with branding, a basic revenue mode has constructed. As time passes by, improvement on management will reduce cost, too. The whole profit mode is possible for VC investors to find those new catering firms' potential.

Some old firms with good and satisfactory business condition refused to cooperate with investors from financial market [5]. After the impact of COVID-19 pandemic, these enterprises be emphasized in financial problems like interrupted cash flow because many stores had to close in short term, but cooperating with the investors is helpful in handling these problems.

4.2 Risks

The whole scale of catering investment is too small in comparison with mainstream focuses of VC. At the first half of 2021, the whole scale of investment was around 97.3 billion dollars, but investment in catering was about 973.3 million dollars which takes a percentage of 1% of the whole market [11]. Information and medical technology had 15710.94 million dollars and 19703.41 million dollars investment respectively [11]. There is a huge gap between the mainstream and catering.

From a general scope, catering industry still get few investment horizontally compared with other industries, so VC institutions are merely for present potential profit to invest. Catering industry does not have a certain barrier emerged instantly after the investment, not like technical industry holding intellectual properties which are born to be barriers, so the revenue and business mode are not too hard to form, moreover.

The business model should also be continuously attractive to customers, because their focus on products is the quality of food [5], and these products are mainly meals. It takes time and money to produce high-quality food or meals. Just like hiring senior chefs, the on-site food production process has become the most important point. Now, the on-site production process is considered to be simplified and shortened, which is competing with the business model that VC investors are interested in. Therefore, making a balance between fast processed food onsite and the quality is a decisive thing to catering entrepreneurs because the side of standardization and fast onsite food process attracts investors but customers prefer the quality. Catering firms need to focus more on

internal management rather than looking for investment because the industry is not the main target of investors.

5. CONCLUSION

Catering business in China suffered a giant loss under COVID-19 pandemic. Chinese venture capital market was also depressed at the beginning of the epidemic. During the pandemic, online-to-offline food delivery platform became a popular tool to deliver food and meals.

VC investors paid attention to catering business and invested some firms. The most attractive point is that the newest supply chain circumstance provides catering enterprises a fast onsite process of food to raise efficiency in business of stores. The business mode bases on pre-processed food materials and ingredients to shorten and simplify onsite process in catering stores like restaurants, so customers have a standardized taste and feeling of food. In combination with branding, a potential profitable business mode is generated.

However, catering business is not included in the mainstream of investors' choice, probably because catering business does not have high barrier to entry. Enterprises in the industry change one third every year. The turning point to cut the cost it to take the business mode, simplifying onsite food process and making use of platforms for marketing, so that products are standardized. From customers' perspective, food quality is preferred than onsite processing time, the balance between food quality and onsite process efficiency is an important point for catering enterprises to consider because it is a balance between investment and market. Catering industry has fierce competition together with chances, venture capital is helpful to both new and old enterprises, but taking a balance between investment and market, focusing more on internal management is the proper strategy.

This article focuses more on macro status in both catering and capital market, the detailed data within certain enterprise is not referenced, so the analysis does not provide any methods which can be specifically executed. To explore detailed methods for enterprises to take, confidential information may be put into consideration, so it will be hard to predict the trend.

ACKNOWLEDGMENTS

The author would like to thank Jonathan Liebenau and Wenxuan Cui for guidance and comments on outline. The author is grateful to those who offer modification opinions for later versions. The usual disclaimers apply.

REFERENCES

- [1] Schindler, S., Jepson, N., and Cui, W. (2020).

- Covid-19, China and the future of global development. *Research in Globalization*. <https://doi.org/10.1016/j.resglo.2020.100020>
- [2] Pan, W., et al. (2020). COVID-19: Short-Term Influence on China's Economy Considering Different Scenarios. *Global Challenges*. <https://doi.org/10.1002/gch2.202000090>
- [3] Lu, L., et al. (2021). A review of epidemic investigation on cold-chain food-mediated SARS-CoV-2 transmission and food safety consideration during COVID-19 pandemic. *Journal of Food Safety*. <https://doi.org/10.1111/jfs.12932>
- [4] Industry Development Department. (2020). Investigation and analysis report on the operation status and development trend of China's catering industry during COVID-19 pandemic in 2020. China Cuisine Association. <http://www.ccas.com.cn/site/content/204393.html?siteid=1>
- [5] Fangu. (2021). Capital is hunting noodle shop business, catering industry starts to stale. *DoNews*. <https://www.donews.com/news/detail/1/3164198.html>
- [6] National Bureau of Statistics of China. (2021). National Economy in the First Half Year Witnessed the Steady and Sound Growth Momentum Consolidated. National Bureau of Statistics of China. http://www.stats.gov.cn/english/PressRelease/202107/t20210715_1819447.html
- [7] Baidu. (2021). Real time big data report of new corona virus pneumonia pandemic. Baidu. https://voice.baidu.com/act/newpneumonia/newpneumonia/?from=osari_aladin_banner#tab4
- [8] Wang, Z., and He, S. (2021). Impacts of food accessibility and built environment on on-demand food delivery usage. *Transportation Research Part D Transport and Environment*. <https://www.researchgate.net/publication/355335599>
- [9] Lu, C. (2020). Four major trends to emerge in the future, catering enterprises should follow the trends. *China Food*, 2020(3), pp. 70-73.
- [10] Liu, M. (2020). CVStatistics: Chinese VC/PE market is bleak in January, VC transaction number and scale touched the bottom. *ChinaVenture*. <https://www.chinaventure.com.cn/report/1005-20200220-1596.html>
- [11] Chen, Y. (2021). CVStatistics: Fund raising market had a year on year recovery in the first half of 2021, transaction number of new consumption increased by 140%. *ChinaVenture*. <https://www.chinaventure.com.cn/report/1005-20210723-1653.html>
- [12] Chen, Y. (2021). CVStatistics: Funds with a scale over ten billion yuan established together in July, catering brands suddenly rose as a new force. *ChinaVenture*. <https://www.chinaventure.com.cn/report/1005-20210817-1657.html>