



Impact of Covid-19 Pandemic on Food and Beverage Companies

Comparing International Companies and Domestic Companies in China

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Abstract. As COVID-19 was spreading out at the end of 2019, the economies in the different countries have been impacted to varying degrees, and most industries are shocked. This paper, through the method of literature review, aims to describe domestic food and beverage companies in China and international food and beverage companies, examines the general trend of the food and beverage industry before and after the epidemic. Additionally, it analyses the differences between the behaviours of these two kinds of companies by graphing the data. According to the data analysis, the paper finds that food and beverage industry is developing steadily. The COVID-19 epidemic has an impact on the food and beverage industry, but it is not as severe as it is on other industries, such as the catering industry and tourist industry. Generally, the revenues and cost of sales are both increasing, and the profit rate is stable. In most sample companies, the rate of capital spending stays low, except for one Chinese domestic company. By comparing the data between the domestic and international food and beverage companies, it is obvious that there is still a huge gap between Chinese domestic companies and international companies. Domestic companies have a smaller scale and market. Their ability is not strong enough to cope with the unknown risks, so they hold more cash to prevent accidents. Besides, domestic companies in China do not pay enough attention to the community and environment. Some suggestions from the angles of operation mode, financial situation, innovation and soft power are provided to help domestic companies make progress.

Keywords: Food and Beverage enterprises, COVID-19, Social responsibility, financial situations

1 Introduction

In 2010, China became the largest food industrial company in the world and the food industry is on upward trend. The increase in consumption levels and the drive of the internet are the key reasons. [1] In 2021, China's total GDP reached 114.3 trillion yuan. Consumption per capita rises year after year in this trend. Besides, due to the spread of the internet, new marketing methods are created. Taking livestreaming marketing as an

example, in 2020, the number of online live broadcast users in China reached 524 million people, and the user growth rate exceeded 9.2 percent according to the data. [2] This led to a great increase in revenues for the leisure food industry. The snack industry is becoming the most promising and dynamic industry in the future FMCG (Fast-moving Consumer Goods) market in China. The market size of China's leisure food reached 1 trillion yuan in 2011 and exceeded 3 trillion yuan in 2020. [1] Many large domestic food and beverage companies in China have started to play an important role in the market, but foreign brands are always pivotal and keep innovating.

China's economy is negatively affected after the outbreak of COVID-19. Many cities are ordered to shut down and a great number of shops, especially places for amusement, have to be closed in special period. Besides, there is a limit on delivery. Thus, many industries enter a trough period. [3] In the film industry, for example, nearly 60 percent of theatres are closed. The commercial sales of movies in China decreased from 64.266 billion yuan in 2019 to 20.417 billion yuan in 2020. Though it will increase to 47.258 billion yuan in 2021, there is still a great loss. Similar situations exist in the catering industry, transport sector, etc. However, the negative impact on the food manufacturing sector is smaller than in other manufacturing and service industries. [4] But there are still some differences between the situations of Chinese food and beverage companies and those of international food and beverage companies.

To my best knowledge, there is no paper that analyses and compares the performance of native food and beverage companies in China and international food and beverage companies under the environment of COVID-19, by studying the financial information of companies. The motivation of the paper is to find the merits and disadvantages of Chinese food and beverage companies by comparing their financial management with those of international companies to cope with the challenges and benefits the epidemic brings.

2 Analysis 1--Comparison of the financial situations of Food and Beverage enterprises before the epidemic with those after the epidemic starts

The spread of COVID-19 started in December in Wuhan, China, and the outbreak spread rapidly worldwide during the next three months. Many strict policies were established to reduce the chance that people would be infected with the virus. Therefore, more companies went bankrupt than in the past, and many industries did not have a suitable environment to develop. But in the case of food and beverage companies, the situation seems different. In this part, the main goal is to discover the general trend of the food manufacturing industry under the impact of the epidemic and the reason for it.

2.1 Data sources

Most of the data in this paper is obtained from the annual report on the websites of each company and statistical websites. Some data is from private approaches. In this paper, the figures that are focused on are net revenue, cost of sales, core operating profit, free

cash flow, capital spending, and net income. PepsiCo Int and Mondelēz International are the samples of international food companies, while Qiaqia food company, and Dali food company represent domestic food and beverage companies in China.

2.2 Data analysis

Most firms in the manufacturing industry were facing significant pressure before the epidemic, and their conditions became worse after the spread of the virus, due to the decrease in demand and the growth rate of production capacity. [3] Besides, there are some industries that had a good tendency before but stepped backward because of COVID-19. For example, the revenue of the catering industry in China has been growing for nine years from 2010 to 2019. Whereas, after 2019, 9% of catering enterprises have lost more than 90% of their revenue. A great number of restaurants are closed during this period. [5,6] In addition, the epidemic does not cause many bad results for the food and beverage industry. From figure 1, it is obvious that the revenues of all the sample companies have generally been growing in the past five years, though, there is a huge difference between the quantities of revenues.

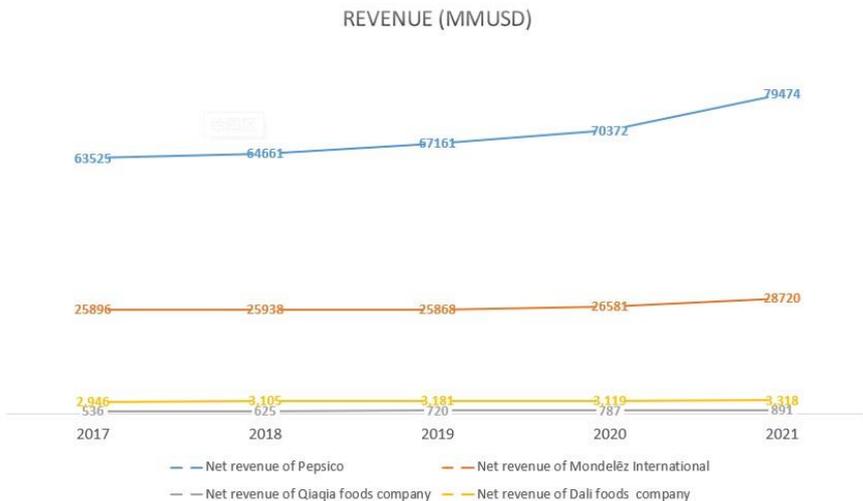


Fig. 1. Revenue (MMUSD)

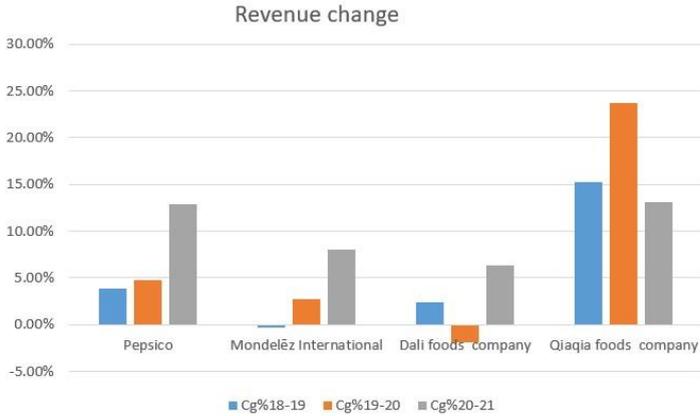


Fig. 2. Revenue change

Moreover, from Figure 2, the average change in annual revenue from 2018 to 2021 for each sample company is positive. Some companies might not be ready for the change, so they will obtain less revenue in 2020. But in 2021, all the revenue changes of the sample companies increase prominently. Both of the two forms show the positive foreground of the food and beverage industry. However, it does not mean that all food and beverage firms are in a good situation.

Many small businesses cannot survive the epidemic due to rising sales costs, but their income is insufficient to compensate for this change. Thus, many of them lose money and even come to naught. [4]



Fig. 3. Cost of Sales

There is an upward trend in the quantity of cost of sales. Due to the policies, many countries restrict the import and export of trade to reduce the possibility that their workers contract the virus. Thus, the logistics costs grow a lot. Besides, as the export of the

ingredients decreases but the demand actually remains constant, the prices of some raw ingredients can even double.

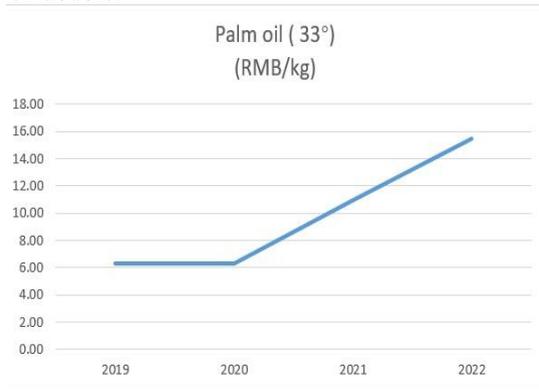


Fig. 4. Price of Palm oil (33 degree)

From figure 4, it is apparent that the price of palm oil increased by 145% from 2020 to 2022. In the bargain, the price of sugar doubles by 2020. That is a huge increase, and this increase must cost food companies much more than before. Furthermore, to prevent the loss of workers, companies need to raise salaries, so the label cost will increase greatly. [7]

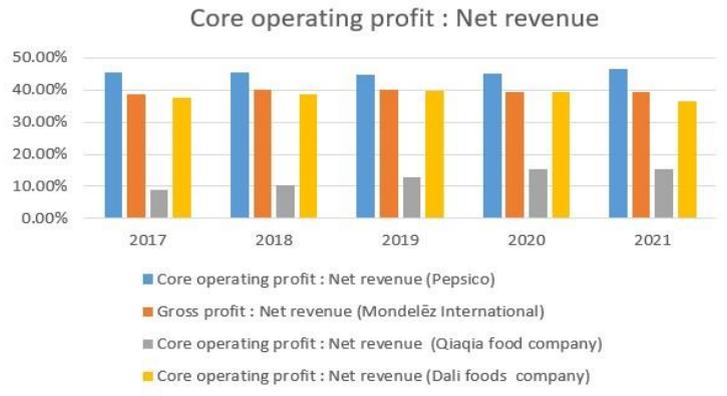


Fig. 5. Core operating profit: Net revenue

From Figure 5, the profit rate of each company in each year is stable. This means that the economic environment of the food and beverage sector is not changed much by the epidemic. Because food is one of the necessities for humans. Besides, since most of the cities are on lockdown, restaurants are closed. People can have more time and money for resting and eating leisure food. [8] Therefore, the profit rate of some companies increases by a relatively greater amount.

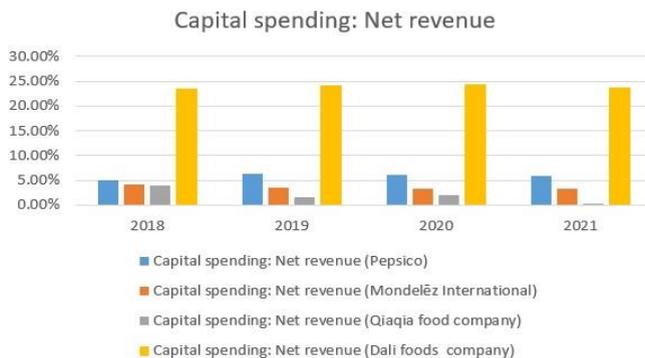


Fig. 6. Capital spending: Net revenue

According to Figure 6, the rate of capital expenditure is really low for most companies. This phenomenon indicates that most publicly traded companies are cautious when it comes to investing. The reason for this could be a decrease in return on investment. [9] Dali food company has such a high rate since it started investing in a big business early and it needs to continue investing.

3 Analysis 2-- Comparison of the behaviors of international food and beverage companies with domestic food and beverage companies

Though there are some similarities between the trend of native food and beverage companies and that of international food and beverage companies under the global epidemic, some financial data also shows the diverse strategies that are used to cope with the potential changes. From this perspective, the gap between domestic and international companies can be assessed.

To begin with, the quantities of revenues of international companies are much greater than those of native companies in China. Besides, according to figure 5, the profitability of international companies is stronger. There are many reasons.

Most international companies have been set up much earlier, which means they have a very long time to develop and refine the organization. PepsiCo Inc started in 1965 and Kraft Foods, the predecessor of Mondelez International, was listed in 1924. But almost all of the Chinese food and beverage companies are listed after 2010. The business patterns of international companies are more mature and their scales are larger, so the productivities of these companies are greater and their ability to deal with accidents is better. Furthermore, the work of international companies is more standardized. The customer's confidence towards these companies is higher.

The customers of international companies are spread all over the earth. For Mondelez International, it has segments in Latin America, Europe, Africa, the Middle East, South Asia and North America. PepsiCo has a stronger presence in Asia-Pacific,

including Australia and New Zealand, as well as the China Region. This phenomenon reflects that the brands of these international companies are well-known all over the world, and the epidemic cannot influence the sales of international companies much. Nevertheless, foreign people seldom hear about these Chinese brands. According to the financial report, only 8.66 percent of the total revenue gained by Qiaqia food company in 2021 was from the foreign market. For Dali food company, there is almost no overseas revenue. Thus, the sales of domestic companies can be easily impacted by the policy and situation in China.

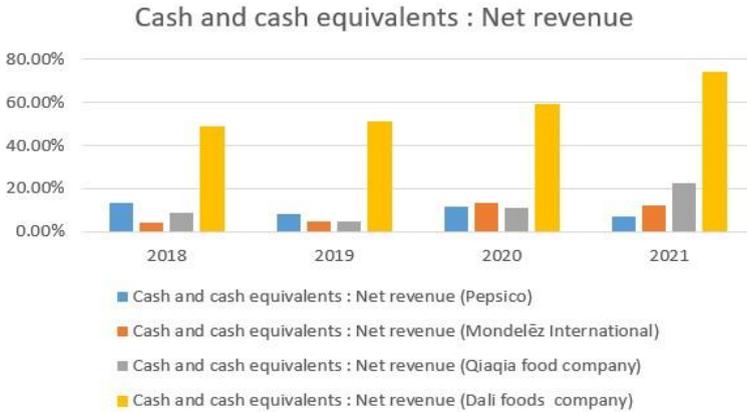


Fig. 7. Cash and cash equivalent: Net revenue

Sufficient free cash flow indicates that the enterprise is in good operating condition, has strong solvency, has plenty of funds for reinvestment, and has a good future development trend. [10] Figure 7 shows that many companies increase their rate of cash and cash equivalent to preventive risks brought by the epidemic. By contrast, the growth rate of international companies is more regular and stable. This proves that some international companies have better anti-risk ability. In addition, since the scales of domestic companies are smaller, they need more cash equivalent to deal with the challenges. Whereas, combined with figure 1, it shows that domestic companies in China prepare a great amount of cash and cash equivalent and run their business well.

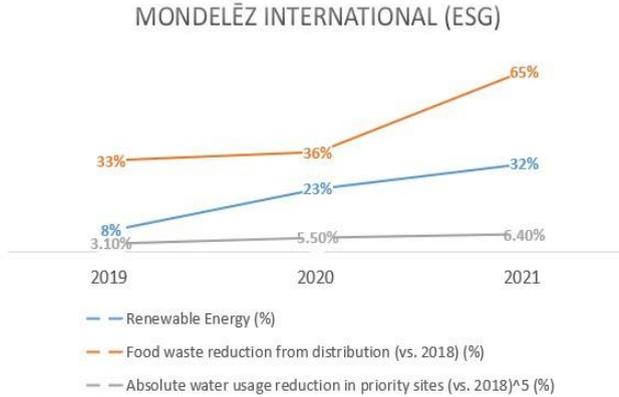


Fig. 8. ESG Data of Mondelez International

Soft power can indicate the soft power of a company to some extent. Companies gain long-term benefits while actively contributing to society and enhancing their comprehensive competitiveness. [11] International companies pay more attention to the environment, human rights and community. Figure 8 shows that Mondelez International has made much progress on environmental protection. It increasingly uses renewable energy and reduces the food waste and water used in priority sites. PepsiCo Int also makes plans to help restore the earth. However, domestic companies do not take many actions to contribute to the community or environment. They do donate money or food to the places in need, but there is no a long-term plan for the conservation of the environment. The reason could be that domestic companies do not have sufficient money to support the cost of this kind of project that cannot bring them profit directly. Moreover, they do not have the awareness that environmental protection should be a responsibility of companies. Compared with international companies, domestic companies have less sense of social responsibility. [11-12]

4 Suggestions for domestic food and beverage companies

First, develop the business pattern, and increase the anti-risk ability to have better behaviour when they face problems such as shortage of funds, reduction in return on investment, closure or limited operations of distributors and trade partners, etc., which happened to some companies in the environment of the epidemic. [9]

Second, COVID-19 leads to the relatively positive trend of the food and beverage industry. Therefore, companies should seize the moment. Do some projects such as advertising and donating food to increase the awareness of them. In this way, domestic companies can find potential customers and promote their brands. Besides, domestic companies can have an international reputation and open up overseas markets.

Third, domestic food and beverage companies should increase their application of new technology in order to improve productivity and efficiency. They need to recruit innovative talents, create new products to bring novelty to customers. Instead of making

a product that is similar to some famous snacks. Besides, they need to refine the ingredients to raise the quality of their products to increase the number of returned customers and build up customer confidence.

Last, enhance soft power by using new energy and doing some protection projects. This is long-term work and costs a lot, but it is important for large firms to do that and play a leading role in society.

5 Conclusion

In this paper, the author generates the trend of the food and beverage industry and the behaviours of food and beverage companies by analysing the financial data of both Chinese domestic and international food and beverage companies. To sum up, the food and beverage industry had a positive tendency before the epidemic, and it is not impacted by the epidemic as much as some other industries, such as the catering industry. [4,5,13] Though food and beverage companies do face some problems such as shortage of funds or a rise in the ingredients' prices, most companies make steady progress. Because of the increase in rest time and leisure money, many people are willing to spend more money on snacks and beverages. [8] This phenomenon actually contributes to the increase in revenue. Besides, the trend of profit rates is stable. This adds further evidence of the up-growing trend of the food and beverage industry.

By comparison, international companies have more mature working patterns and a wider range of markets, so the quantity of revenue and the profit rate are much higher than domestic companies. Domestic companies have weaker profitability and anti-risk ability, which they need to enhance. But according to the data on the rate of cash and cash equivalent, domestic companies prepare a lot for the unknown changes. Domestic companies have their shining points, but there is still a growing space for them to develop. To increase the competitiveness of domestic food and beverage companies, there are suggestions from the angles of operation mode, financial situation, innovation, and soft power.

As for the limitations of this paper, the points of view may not be the true for food and beverage companies in other countries. Besides, due to the condition of the epidemic, it is unavailable to do relevant field survey, which may be achieved in future research.

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