# Analysis of the Financial Growth Strategy of the Health Food Industry in the Context of "Economic Downturn"

Zheqi Fang

School of Accounting, Capital University of Economics and Business, Beijing, 100101, China
32023040173@cueb.edu.cn

**Abstract.** In recent years, the recession has had a significant impact on the consumer sector, including the health food industry. Following the epidemic, there has been a gradual increase in people's focus on health, and the health food industry has developed rapidly. Consequently, how to maintain financial growth amidst the challenges of an economic downturn has become a question worthy of discussion. This paper employs literature research and case analysis to examine the methods of financial growth in the health food industry in the context of the "economic downturn" by reviewing previous research and analysing the strategic layout, business strategy and financial status of relevant companies. Studies have shown that under the downward pressure of the economy, the health food industry has achieved financial growth through precise positioning of demand, technological innovation, supply chain optimisation and channel reconstruction. It provides a reference for relevant enterprises and addresses the lack of research in this industry.

**Keywords:** Economic downturn, Healthy food, Financial growth.

## 1 Introduction

Due to the complex international situation and the domestic epidemic, the growth rate of China's Gross Domestic Product sharply slowed in 2022. In 2023, China's economy is gradually entering the post-pandemic era, and despite some recovery, GDP growth remains relatively slow [1]. At the same time, consumer confidence in China is sluggish, and the trend of weak consumption is gradually emerging. However, the 2023 McKinsey China Consumer Report states: "People's consumption has not decreased, but they have chosen more wisely. This trend is not merely an anti-material consumption stance, but an attempt to attain autonomy in consumption and not be constrained by materialism." Therefore, this paper argues that although the task of China's economic recovery and development is arduous, it represents a good opportunity for exploration, discovery and innovation. Under the complex economic situation, consumers have also initiated rational considerations regarding consumption. According to the statistical results released by iResearch, consumers will generally pay attention to nutrition and health issues when purchasing food in 2024, but due to the economic downturn, the growth rate of residents' disposable income will slow down, the desire to consume will decrease, and the non-rigid demand will decrease. Due to the large fluctuation of raw


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material prices in the health food industry in recent years, cost pressure and price competition have intensified. The increase in the cost of sales of enterprises, and the adoption of low-price competition by some enterprises, have also caused food safety problems. In addition, the rise of new sales channels such as community group buying and snack wholesale has promoted price transparency and sales channel diversion. White label companies seize the market, further squeezing the market share of traditional brands.

However, due to the gradual increase in consumer health awareness, particularly influenced by the pandemic, consumer demand for functional products has risen. Through "health productization" and "product health preservation", the company integrates traditional food into health preservation, meets the needs of market segments, and expands market coverage. Coupled with the implementation of national poverty alleviation policies, there may be a trend of consumption upgrading in lower-tier cities and rural areas, and the demand for consumption upgrading in these areas has not been fully met, and there is huge development potential for healthy food in the sinking market. Therefore, in the long run, the growth of consumer demand for health consumption is an irreversible trend. The development of the health food industry is full of opportunities.

Before 2023, the market size of the health food industry is expected to grow rapidly, with profit margins continuing to rise. Relevant enterprises will invest heavily in product research and development, as well as in production capacity. Investment and financing activities will be active, and the government will introduce policies to promote the development of healthy food. So far in 2023, the growth rate of the market size of the health food industry has slowed down, the performance of subdivisions has been differentiated, the differences between leading enterprises and small and medium-sized enterprises have been differentiated, and cost control has become the key [2]. However, the state has still issued a large number of policies to encourage the development of healthy food, and pay attention to the sinking market and support local products. This article uses 2023 as the boundary to compare the financial situation of the health food industry before and after the economic downturn. Through the literature research method and case analysis method, health food is divided into four sub-subjects based on product type: healthy snacks, light meal replacement, health food and functional drinks, and its market status is analysed, aiming to explore how different types of the health food industry can maintain financial growth under the economic downturn, and to put forward relevant strategies and future development trends. This will assist relevant enterprises in grasping the rigid demand for healthy food, seizing policy dividends, and conforming to the trend of improving consumer health awareness, in order to cope with the challenges posed by the economic downturn and further promote the healthy development of the industry.

# 2 The Development Trend of the Health Food Industry in the "Economic Downturn"

## 2.1 Consumer-side

From the perspective of demand, according to the White Paper on China's Health Consumer Market, the size of China's health market is projected to grow by approximately 50% in 2025 compared to 2020. Of this, the market size for health food will account for 30.4% in 2025, and the demand for health food will gradually become essential. From the perspective of pursuing product functions, consumers have gradually begun to seek the benefits offered by healthy products. In 2024, Heytea, the leading brand in the tea market, launched the "Champion Slimming Bottle" made from kale, focusing on low calories and high dietary fibre, targeting healthy eating enthusiasts. According to the sales data officially released by Heytea, the sales volume of this product has been among the top 3 Heytea products in terms of sales after only one month of its launch. From the perspective of consumer behaviour, with the increase in the variety and quantity of health products in the market, consumers' level of product discrimination has improved. At the same time, in the context of the economic downturn, consumers are more sensitive to price and are more inclined to choose large-packaging, basic products. Also, with the rise of e-commerce, online price comparison is common, and group buying, live streaming e-commerce and other discount promotions have become important purchase channels, and consumption tends to be rational.

## 2.2 Industrial-side

In the case of economic downturn, the industry has achieved the purpose of reducing costs and increasing efficiency by optimising the industrial chain and large-scale production. Taking Microcolando as an example, Microcolando uses local milk sources instead of imported raw materials, ensuring the freshness of food and optimising the industrial chain. As for the product itself, the company has launched a "clean product" label to advocate the streamlining of raw materials. Taking BESTORE as an example, BESTORE's thick meat dried prunes only retain the core raw materials, advocate the "five reductions" concept of salt reduction, sugar reduction, fat reduction and oil reduction and additives, and won the "2024 China Food Industry Product of the Year" award. Some enterprises will parity some high-end production technology to maximise cost savings. For example, the LMD low-temperature composite dehydration technology developed by Shanghao Technology has reduced energy consumption by 30% while retaining 95% of the nutrients, and the production cycle has been reduced to one-third of the traditional freeze-drying technology, becoming a core supplier of multiple brands, occupying about 80% of the market share of China's freeze-dried fruit and vegetable market.

# 3 The Methods to Sustain Financial Growth in the Health Food Industry

## 3.1 Nutritional Snacks

According to the "2024-2029 Health Food Industry Market Report" released by the China Research Institute of Puhua Industry Research Institute, the market size of China's health snack industry is gradually expanding. As consumers' demand for healthy snacks becomes more diversified, companies have proposed different strategies [3]. For example, the Three Squirrels Inc.  adopt the general strategy of "high-end cost performance" and the strategic layout of "manufacturing, brand, and retail integration". BESTORE is positioned as a high-end brand and promotes the general policy of "price reduction without quality reduction". Secondly, enterprises pay attention to supply chain optimisation and cost control, such as the Three Squirrels having adopted their own factory model to compensate for the shortcomings of offline sales channels through mergers and acquisitions. BESTORE adopts a price reduction strategy to reduce the cost of raw material procurement by lowering supplier prices, and encourages suppliers to enhance production equipment and processes to improve the efficiency of the supply chain. At the same time, the company has launched diversified products through product research and development, technological innovation and other means. Three Squirrels has increased investment in sub-brands to cover the market in segments such as healthy and light food, and has continued to occupy market share with a large number of popular products [4]. However, BESTORE's OEM model restricts quality control, making it difficult to maintain popular items. Originally positioned as a high-end healthy snack, the price has been greatly reduced in the economic downturn, and there have even been rumours of falsified ingredient lists, which has triggered a crisis of consumer trust [3]. In addition, in today's era of rapid development of e-commerce, the integration of online and offline publicity and sales has opened up a broader market for healthy snacks. Three Squirrels quickly monetised online through live streaming, and offline distributed to the end of the physical store through dealers to reduce direct sales costs. On the other hand, BESTORE will gradually decline following the first decrease in the marketing volume of e-commerce channels in 2022. Its offline expansion has also been hampered, and the number of franchised stores has plummeted in 2023 due to its price reduction strategy. In order to ensure the offline advantage, BESTORE had to increase the number of directly operated stores, resulting in a significant increase in costs. From a financial perspective, the ROE of the three squirrels has fluctuated dramatically over the past five years. In 2022, offline stores were severely negatively impacted by the epidemic, and following strategic adjustments and channel optimisation, ROE is expected to rebound significantly in 2024. Profitability, total asset turnover, and asset operating efficiency have all improved due to the strategic realignment, alongside an increase in gearing. Over the past five years, BESTORE's ROE has demonstrated an overall downward trend. Corporate profitability continues to deteriorate, asset operation efficiency is declining, and overall gearing remains low. Above all, it is recommended that first of all, enterprises can focus on product innovation and strengthen differentiated competition in health attributes. Attention should be paid to the needs of market segments, more targeted functional products should be developed, and production technology should be improved to form patented technical barriers. Secondly, optimise and balance the channel layout, and attract more users through live streaming and targeted scenario marketing. Utilise health attributes to compete with ordinary mass-market snacks. Thirdly, optimise the supply chain and cost management, establish raw material bases, own factories, etc. to control costs, and avoid fluctuations in commodity prices that compress profits. Refined management of costs, streamlining unnecessary raw materials, and focusing on high-margin single product marketing should be implemented. Reduce the delivery of ineffective advertisements, target customers, and increase the repurchase rate of users. In addition, enterprises can obtain professional health certification through third-party testing institutions, and at the same time make raw materials and production processes transparent, improving user trust. Avoid exaggerated claims and instead enhance brand compliance by objectively describing facts (e.g., "rich in dietary fibre" rather than "anti-sugar and anti-ageing"). Finally, companies need to be prudent in their financial strategies and capital operations. They should be vigilant about cash flow and prioritise the development of products with high repurchase rates. It is important to avoid cash flow pressures due to rapid expansion. For instance, when considering expansion and mergers and acquisitions, one should assess the integration risk to avoid repeating the mistakes of BESTORE, which blindly expanded and led to a continuous decline in net profit. It is essential to respond flexibly to shareholder trust and market expectations, strengthen communication with investors, and mitigate the impact caused by investors' withdrawal. Simultaneously, in line with the environmental protection boom, scholars will explore ESG solutions to attract long-term investors.

### 3.2 Light Meal Replacement

In recent years, healthy, low-fat, and satiating foods have been favoured by young consumers. Light food meal replacement companies have maintained strong growth and are considered to have ushered in the outlet [5]. Light meal replacement companies are generally divided into two types: food production companies and catering companies. The former manufactures and sells packaged light food products. For example, Shark Fit, focusing on the needs of young consumers for 'health + convenience', produces packaged light meal replacement products with low calorie and high protein as the core. Covering the entire spectrum of diet, it quickly occupies the market through ready-to-eat chicken breast at room temperature. Its three major production bases in Shandong cover the entire chain of R&D, production and logistics, managing more than 30 factories under the OEM (Original Equipment Manufacturer)/ODM (Original Design Manufacturer) model to reduce costs through large-scale procurement. At the same time, a batch inspection and traceability system were introduced to reduce the defective rate by 15%, and the supply chain upgrade was supported through financing [6]. Most of these companies adopt the strategy of e-commerce expansion, and their products continue to innovate and iteratively extend to achieve comprehensive coverage. The latter includes companies that offer entirely light food and companies that incorporate some light food products in their menus [5]. For example, Shaye Light Meals that focuses on fat loss meals, relying on the online food delivery platform to achieve a high order conversion rate, and offline to expand more than 130 stores in China, to achieve dual-channel development. In terms of production, the central kitchen model is adopted to reduce on-site processing costs and improve meal efficiency. Collaborate with regional farms to source fresh ingredients directly, control the risk of fluctuations in raw material costs, and decrease the loss rate. Shaye Light Meals establish central kitchens and cold chain distribution in numerous locations to ensure the freshness and traceability of ingredients, strictly monitor the production process, and enhance quality control. At the same time, it continues to innovate and localise light food in China, breaking the monolithic pattern dominated by traditional salads. It also explores the integration with other catering formats such as prefabricated dishes and hot pot to meet diversified needs and form an ecological layout. Light meal replacements attract significant investment, yet their consumers exhibit two key characteristics: firstly, they do not purchase large quantities of food, as light meals are intended for fat loss and maintaining health rather than indulgence. Secondly, long-term consumers must possess a robust sense of determination, as light meal replacement products tend to be somewhat monotonous in comparison to delicious foods that are high in sugar and calories [5]. In addition, light meal replacements require greater costs in the supply chain such as cold chain logistics due to high requirements for the freshness of raw materials, and the pricing is usually higher. In the context of the economic downturn, it is also worth discussing how to reduce costs and increase profits while ensuring the freshness of ingredients. Above all, it is recommended that first, enterprises can reduce costs and increase efficiency through large-scale procurement and regional supply chains. Light food catering can also learn from Shark Fit's factory management model and reduce marginal costs. Long-term agreements with upstream suppliers can protect against the impact of price fluctuations on profits. The introduction of digital management, real-time monitoring of ingredient consumption and procurement demand, optimises menu structure through data analysis, and reduces inefficient products. Secondly, the diversified layout achieves a comprehensive ecological extension of scenarios and functions. Establish long-term cooperation with online and e-commerce platforms, and launch more packages on takeaway platforms to increase the unit price for customers. Increase the deployment of smart cabinets and vending machines offline, covering office areas, gyms and other locations to reduce rental costs. Thirdly, the product is localised to enhance and innovate the taste, and food that is more in line with Chinese preferences can also be combined with regional cuisine. For fitness enthusiasts, urban white-collar workers, and other different demographic groups, various individual products or packages are launched to meet the needs of market segments. In addition, companies can adopt eco-friendly packaging to attract socially responsible consumers and strengthen brand value. At the same time, it will enhance their sustainability capabilities, promote low-carbon supply chains, and improve brand premium capabilities. Finally, companies need to pay attention to financing and risk management, establish risk hedging mechanisms, establish long-term cooperation with suppliers or establish flexible supply chains, and prevent the impact of price fluctuations on net profit. Companies should conduct regular financial tests to optimise fixed costs and ensure cash flow security.

### 3.3 Healthcare Products

From 2023 to 2024, the average annual compound growth rate of China's health care products market is expected to be nearly 10%, indicating strong development momentum. At present, China has become one of the most active countries in the global nutrition and health industry [7]. According to statistics, China's infant health products and vitamin health products occupied more than 30% of the market share in 2024, reflecting the market's high attention to market segments. For example, By-Health takes 'scientific nutrition' as its core strategy and focuses on the field of dietary supplements. It acquired the Australian probiotic brand Life-Space and the children's nutrition brand Pentavite to expand high value-added product lines. It also builds a multi-brand matrix through the strategy of "large single product market segment". In recent years, the Chinese government has introduced a number of policies to support the development of healthcare products. In 2023, the "Implementation Rules for the Technical Evaluation of New Functions and Products of Health Foods (Trial)" will be released and implemented, and a health care product management model of "the government releases a catalogue of mature functions and industrial research and innovation supplements" will be established, providing new opportunities for enterprises [8]. As the digital transparent factory built by By-Health was selected as a national intelligent manufacturing demonstration project. In 2024, China's State Council issued the 'Opinions on Promoting the High-quality Development of Service Consumption', which calls for strengthening the nutritional and health care functions of products in retail pharmacies [5]. With the development of the market and the upgrading of consumer demand, pharmaceutical companies have a significant tendency to engage in the health food market. The advanced science and technology in the field of medicine, along with academic frontiers, can provide considerable assistance for the research and development of health food [7]. Rudong Ejiao is set to explore the category layout of "Ejiao +" and "+ Ejiao", deeply constructing a two-wheel drive growth model of "medicine + consumer health", penetrating the hospital scene through medical channels, and establishing full network coverage of "online+ medical+ pharmacies". By-Health also maintains stable revenue through high-barrier sales channels such as pharmacies. It is worth mentioning that the ROE of By-Health has continued to deteriorate over the past five years, and the iteration of new products has caused inventory pressure on By-Health. In 2024, the doubling of its fixed asset investment will lead to idle assets and a decline in asset operation efficiency. Its equity multiplier is stable but lower than the industry level, the asset-liability ratio is low, the capital efficiency is insufficient, and the capital structure needs to be optimized [9]. However, By-Health released its ESG report for the first time in 2024, laying the foundation for sustainable development for the company, responding to the call for environmental protection, and worthy of learning from relevant enterprises. Above all, it is recommended that first of all, enterprises can focus on core advantageous products, expand high value-added categories, increase R&D investment, develop patented products and improve technical barriers, in order to increase product added value. Secondly, through digital calculation of the number of days of inventory turnover of downgrading, self-built raw material bases or diversified procurement channels, and the establishment of a risk hedging mechanism to reduce the impact of raw material price changes on net profit. Thirdly, deepen the online channels to expand the scope of publicity, and enterprises themselves should also build private domain traffic to improve profitability. Reshape the value of offline channels. For traditional channels such as pharmacies and supermarkets, the society will enhance efficiency through in-depth distribution and dynamic sales support, ultimately forming an omni-channel layout for precise delivery. In addition, balance marketing with R&D investment. Control and optimise sales expenses and reduce inefficient ad delivery. Strengthen accounts receivable turnover and inventory management to avoid excessive investment in heavy assets and pressure on corporate cash flow. Finally, to strengthen brand value and user loyalty, the health food industry can produce products tailored to the specific needs of different categories of users, establish a membership system, provide personalised nutrition solutions through health data tracking (such as wearable device integration), increase the repurchase rate, and foster long-term user relationships.

### 3.4 Energy Drinks

As the pace of consumers' lives accelerates, functional beverages have gradually become an important part of consumers' lives, serving as drinks that both satisfy health needs and replenish energy. According to the "2024-2029 China Functional Beverage Industry Research and Analysis and Development Prospect Forecast Report" released by the China Business Industry Research Institute, the size of China's functional beverage market will increase from 111.9 billion yuan to 147.1 billion yuan from 2019 to 2023, with an average annual compound growth rate of 7.08%, and it is expected that the size of China's functional beverage market will reach 157.6 billion yuan in 2024. By paying attention to the leading enterprises in this field, it can be found that as of September 2024, Dongpeng Beverage has 12 production bases across the country, as many as 2,982 distributor partners, and its sales network has covered more than 3.6 million active terminal stores across the country, and it has distributed goods through small-sized and low-cost products in the Southeast Asian market. Yuanqi Forest is predominantly deployed in convenience stores offline, expands its coverage online through e-commerce, and penetrates the consumer market in third- and fourth-tier cities through regional products. The products are exported to over 40 countries, including the United States. It demonstrates strong momentum. At the same time, both companies carry out scenario-based and functional extensions on the basis of core products to form a brand matrix. In addition, functional beverage companies also pay attention to the optimisation of supply chain and costs, such as Dongpeng Beverage's use of digital technology production management through strategies such as bulk purchase. Develop new formulas and production processes with higher efficiency, strengthen quality inspection, and reduce the rate of defective products. Yuanqi Forest has established its own factories in the "5 Super City Agglomerations", spanning more than 30 provinces and cities in China, thereby reducing transportation costs and ensuring quality control. The DTC (direct to customers) marketing model has been adopted, which reduces intermediate links and alleviates inventory pressure. From a financial perspective, functional beverage companies have benefited from high-density outlets for a considerable period, typically with a higher equity multiplier and manageable risks. It is noteworthy that Dongpeng Beverage's return on equity has consistently increased over the past five years; however, it indicates that it will distribute a dividend of 1.3 billion yuan in 2024 (representing 78% of the dividend ratio), and plans to invest 11 billion yuan in wealth management acquisitions. Yuanqi Forest is performing well in terms of its results, yet its founder, Binsen Tang, has also reflected on the waste generated by indiscriminate innovation in the early stages of development [10]. Above all, it is recommended that first of all, enterprises can strengthen product innovation and brand matrix to achieve differentiated competition and healthy upgrading. Aiming at the market segmentation market, targeted research and development can be undertaken to launch new products, expand the functional boundary, and highlight the functionality of products for different groups of people. New flavours are introduced regularly to keep users engaged with the brand. Secondly, through self-built factories, digital supervision, and so on, to reduce OEM dependence, optimise inventory, thereby reducing costs. Thirdly, focus offline on addressing the declining market and terminal penetration, and install smart containers in office buildings, gyms and other locations to enhance the efficiency of dynamic sales. By reinforcing collaboration with e-commerce, online operations will lessen their reliance on traditional channels and broaden their reach. Actively pursue expansion into overseas markets, such as establishing factories in developing nations like those in Southeast Asia, employing low-cost strategies to penetrate these markets, localising products for developed countries, and increasing overseas market share. In addition, optimise the allocation of funds, avoid excessive financial management and excessive dividends, and strengthen R&D and production capacity investment to improve the efficiency of capital use. Finally, to strengthen differentiated marketing and brand loyalty, implement scenario-based marketing, and when addressing homogenisation and price wars, functional beverages should adopt a strategy that is both high-end and cost-effective in parallel.

## 4 Conclusion

This paper argues that the health food industry has the following strategies to maintain financial growth during the economic downturn. First, carry out product innovation. Through market segmentation, products are launched accurately for different groups of people. It can also combine the theory of traditional Chinese medicine with modern science and technology, conform to the trend of medicine and food, and strengthen the health label. Secondly, optimise the supply chain and cost management, and implement regional industrial layout through self-built factories and other methods to enhance market coverage and reduce transportation costs. In the production process, focus on the green and low-carbon transformation of the factory to minimise energy consumption. Thirdly, broaden sales channels. Online and offline dual-channel sales should be enhanced, with an emphasis on cooperation with e-commerce platforms, the establishment of brand-owned traffic, and the expansion of publicity efforts. Offline sales should focus on minimising intermediate costs and achieving direct sales with customers. It is important to expand into lower-tier markets and international markets, develop products that reflect regional characteristics, and localise offerings to rapidly capture market share. Finally, build brand trust and long-term development. Adopt scientific marketing methods to replace traditional traffic dependence, establish brand trust through third-party professional certification agencies, and avoid trust crises caused by excessive publicity. Re-respond to the call for environmental protection, develop ESG strategies, achieve green and sustainable development, and realise corporate social responsibility. Overall, healthy food has great potential and prospects. AI is closely related to big data and life, and technologies such as production in the health food industry will continue to be optimised. Zero-carbon factories and degradable packaging will gradually replace traditional production methods and materials, and ESG indicators will become important metrics that influence investment decisions. Health food will also engage in deep collaboration with the medical, fitness, and other industries for mutual development, forming a healthy ecosystem.

As a burgeoning industry, health food is facing pressure from stricter regulation. Fluctuations in the prices of raw materials can also impact the gross profit of a company. At the same time, during an economic downturn, spending power is likely to remain weak. Enterprises should plan ahead and manage risks.

Due to the unknown financial data, this paper cannot fully compare and analyse the profitability and solvency of enterprises from a financial perspective, and will continue to conduct in-depth research in the future.

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