

The Catering Industry under the Epidemic: A Case Study on Yum China

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Abstract: Since the outbreak of the epidemic in 2019, the world economy has been in a lot of trouble. Among the various sectors, the catering industry has borne the brunt of this unprecedented crisis, facing unparalleled challenges and setbacks. During this time, Yum China has handled the epidemic differently than other food service businesses and hasn't had any trouble with business because of it. The goal of this paper was to look at why Yum China can still be successful even though there is an epidemic. This paper demonstrated the reasons for Yum China's success in the epidemic. This paper finally found that Yum China's success in the epidemic had the following three reasons: At first, the high-quality digital platform enabled Yum China to take a leading position in the industry. In the future, Yum China will continue to increase its investment in digitalization and maintain its leading role. Secondly, the strong safety and health measures had ensured the safety and stability of Yum China's customer base during the epidemic. However, Yum China should pay more attention to food safety after the epidemic. Thirdly, Yum China's strong supply chain management had ensured the stable import of raw materials and cost control during the epidemic. Yum China should continue to strengthen its investment in supply chain management to consolidate strong supply chain advantages.

Keywords: Yum China, digitalization, safety and health measures, supply chain management

1. Introduction

1.1. Research Background

With the outbreak of the epidemic in 2019, the global economy was on a downward trend. As one of the main industries that drives GDP and has made a big difference to the Chinese economy, the catering industry has been hit the hardest by the epidemic and has been going down since it started. According to the Chinese National Bureau of Statistics, from January to October 2022, national restaurant revenue was RMB 3,534.8 billion, down 5% year-on-year [1]. Many catering brands even closed, and there was a downturn in the development of China's catering industry at the beginning of the epidemic.

Early in 2022, as the situation with the epidemic was getting better, China started to have a semi-open status for the epidemic. This meant that people only needed a 48- to 72-hour negative nucleic acid certificate and a scan of the place code to go into public places. Even though the catering

industry is growing in a way that isn't good, Yum China is still able to put its brand at the top of the Chinese market. According to Yum China's Q3 2022 data, the profit margin was 18.8% compared to 12.2% in the same period of 2021, which is the highest profit margin Yum China has realized in four years [2]. The top 10 catering industry brands were Hai Di Lao Hot Pot, Starbucks, McDonald's, Luckin Coffee, KFC, MIXUE, HEYTEA, Pizza Hut, NAIXUE, and Quan Jude, according to a ranking by Median in November 2022 [1]. There are two brands in the 2022 top 10 catering industry brands: Yum China (KFC is in fifth place) and Pizza Hut (Pizza Hut is in eighth place). While most catering brands are going out of business or losing money, Yum China is still able to pull through in the third quarter of 2022 and has implemented the highest record in nearly four years. Yum China will have a special presence in the whole catering industry in 2022. As one of the world's top 500 enterprises, Yum China's restaurant brands include KFC, Pizza Hut, Shaoxing Fanner, Lavazza, Wong Kee Huang, Taco Bell, and Little Sheep in China, and it had more than 410 million members by the end of December 2022.

Journal articles on Yum China has previously looked at the company in terms of the impact of the pandemic and the risks of franchising. Duan et al. used the Chinese catering industry as their research object to study the impact of COVID-19 on the catering industry [3]. Du took "KFC, the brand of Yum China," as the research object to study which of McDonald's and KFC's marketing strategies in China is more successful [4]. Wang took "China's catering industry" as the research object to study the impact of the epidemic on China's catering industry and countermeasures [5].

1.2. Research Gap

In 2022, Yum China's profit margin reached its highest level in four years as China entered the era of COVID-19 semi-openness and also opted for a dual listing in Hong Kong in 2022. Yum China's total number of stores has reached 12,900, with a net increase of 1,159 stores for the year. There has been a lot of research on Yum China and the Chinese catering industry, but up until now there hasn't been any studies looking at how the epidemic from 2019 to 2022 has affected Yum China's development. Almost all previous studies have looked at the impact of the epidemic on Yum China or the Chinese catering industry in general, rather than focusing on the reasons why they can be successful. One way to overcome these problems is to study what the reasons were for the success of Yum China during the epidemic. Why can Yum China still be successful during the epidemic? For this study, it was of interest to investigate whether these reasons are relevant to the success of Yum China. The key contribution of this paper is the solution it provides, which is to provide information to help more catering industries in China know how to adjust their business strategies after the epidemic and recover the economy more quickly.

1.3. Fill the Gap

To solve the problem, this paper will analyze the financial reports and major events of Yum China from 2019 to 2022, analyzing the changes in financial reports and major events of Yum China in different stages of opening up to the epidemic. To discover why these changes occurred and to demonstrate the relevance of the changes to the success of Yum China. Finally, this paper will give reasonable opinions and suggestions according to the reasons it found.

2. Case Description

After 31 years of practice and development, KFC entered China in 1987 and has since become the country's first Western fast-food brand. As a result, Yum China has since undergone continuous reform and developments since become the country's first Western fast-food brand. As a result, Yum China has since undergone continuous reform and development. Create new brands constantly in the

Chinese market and improve food tastes to cater to Chinese eating habits. Nowadays, Yum China's restaurant brands include KFC, Pizza Hut, Lavazza, Wong Kee Huang, Taco Bell, and Little Sheep. Yum China became independent from Yum Brands on November 1, 2016, and was successfully listed on the New York Stock Exchange. At the end of 2021, Yum China food brand East Dawning announced that it would permanently close its last five stores in China in 2022. As one of the world's top 500 enterprises, Yum China is a leading catering company in China, has a large market share in the catering industry in China, and will have more than 410 million members by the end of December 2022. On October 24, 2022, Yum China became a dual-primary listed company on the Stock Exchange of Hong Kong and the New York Stock Exchange. Yum China's KFC expanded its marketing strategy, "Crazy Thursday," in 2022. Because of the "Crazy Thursday liturgy" of the Internet era, KFC also benefited from this Internet boom. Not only did it become the top search every Thursday in 2022, but it also helped its parent company, Yum China, set a four-year record in the third quarter. The profit margin in the third quarter is the highest in four years. For the full year 2022, Yum China reported revenue of \$9.57 billion, down 3% from 2021 [6]. Net income was \$442 million, down 55% from \$990 million in the same period in 2021 [6]. However, in 2022, Yum China opened 1,824 new stores and closed 665 existing stores in China, for a net increase of 1,159 new stores in 2022. Although Yum China has been affected by the epidemic and its net profit has decreased, it is still the largest restaurant enterprise in China. During the same period as China's leading hotpot enterprises, Haidilao Hot Pot was less optimistic. According to its 2022 interim financial report, Haidilao closed a lot of stores in 2022. The revenue in the first half of the year was 16.764 billion yuan, down 16.57% from the same period last year [7]. The net loss was 267 million yuan, compared with a net profit of 96.5 million yuan a year earlier [7]. Therefore, this paper will explore the reasons for Yum China's success during the epidemic for other enterprises to learn from.

3. Analysis on Problems

3.1. The Issues of High-quality Digital Platform

Yum China has invested a lot of money in digitalization, which makes its digital platform quite mature. This may be the first reason for Yum China's success in the face of the epidemic. As a digital leader in China's restaurant industry, Yum China began its digital transformation in 2015. However, its biggest competitor in China, McDonald's, entered the digital age the following year. Yum China has built a comprehensive digital ecosystem and, since 2018, has leveraged AI for smart marketing, supply chain, restaurants, and customer service, enhancing efficiency and customer focus [8]. In terms of ordering food, Yum China has designed mobile apps and online ordering services to allow customers to browse menus, place orders, make payments, and even track their deliveries, ensuring convenience and safety during the epidemic. For the convenience of customers, Yum China also cooperates with more third-party delivery platforms, such as Meituan and Ele, which can enable users to place orders through the takeout platform they are more familiar with, reducing their learning costs. In terms of payment methods, Yum China provides various options to customers, such as Alipay, WeChat Pay, UnionPay, and digital wallets. That makes it easy for customers to pay for their orders without using cash or physical cards, thus reducing contact and the potential for transmission of the virus.

Unlike other brands, Yum China has built an anti-slip system and a smarter recommendation model into its app so that customers don't quit by accident and have to reorder products they haven't yet ordered. This anti-slip system has also increased sales to some extent because when a customer wants to give up and quit, the prompt has the chance to keep the customer. As can be seen in Figure 1, from 2019 to 2022, digital orders increased from around 55% to around 89%. All the methods employed in digitalization made digital orders the main way customers ordered food. The delivery

sales increased from around 20% to around 39%, which shows that the ease of ordering has also led to an increase in takeout [9].

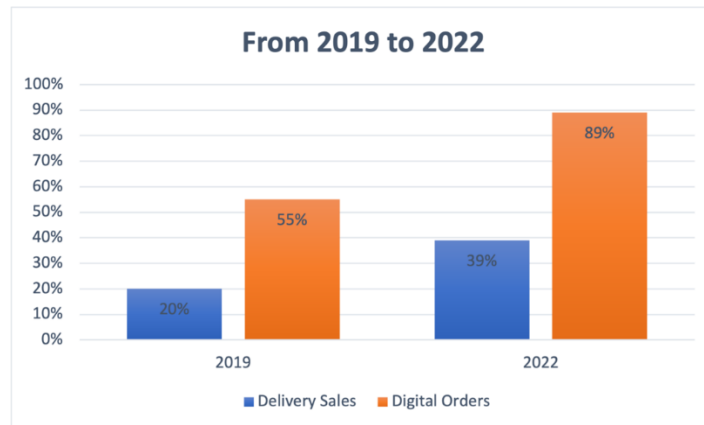


Figure 1: The digital sale of Yum China [9].

In terms of personalized marketing and big data, Yum China collects customers' meal data and browsing history to create personalized recommendations and targeted marketing campaigns for each customer, which helps the company better understand customers' interests and preferences and increase the company's sales. In addition, Yum China also provides pre-sale and after-sale support for customers through chatbots and voice assistants. This helps to improve the company's operating efficiency and reduce human contact. To support the development of digitalization, Yum China announced the official opening of its digital research and development centers in Shanghai, Nanjing, and Xian on October 20, 2021 [10]. This center will integrate and expand exclusive resources, developing new solutions and services by using big data, artificial intelligence, mid-table and digital catering cloud services, and further promoting the company's end-to-end digital construction [10]. Yum China has also earmarked \$1-1.5 billion of investment over the next five years in digital and technology [10]. The huge amount of investment further demonstrates that digitalization guarantees the company's future profits. Geliskhanov and Yudina in 2018 showed that digital platforms effectively reduce transactional and transformational costs by employing advanced technologies such as AI, big data, cloud computing, and the Internet of Things [11]. "Digitalization is one of the key enablers behind Yum China's resiliency and long-term development as it moves toward the next milestone of 20,000 stores," said Joey Wat, CEO of Yum China [10]. Yum China's move into digital can effectively reduce the company's operating costs. By responding to the needs of users faster, speeding up the operation process, and quickly finding the management problem, Yum China can effectively reduce the company's operating costs and maintain the company's profits during the epidemic.

3.2. The Issues of Strong Safety and Health Measures

At the start of the epidemic, Yum China moved quickly to put in place safety and hygiene management policies to help prevent more people from getting sick. This is the second reason for Yum China's success in the epidemic. At the beginning of the epidemic, Yum China immediately implemented new epidemic prevention strategies across the country, while the other catering brands were still in a state of confusion. From January 2020, KFC and Pizza Hut of Yum China successively launched contactless ordering and delivery services. Joey Wat, CEO of Yum China, said that in this instance, KFC and Pizza Hut are implementing "contactless" delivery and testing "contactless" ordering and pick-up services nationwide [12]. And by incorporating these minor innovations and

enhancements, their goal is to prioritize the health and safety of both their staff and customers while actively supporting the battle against the epidemic [12].

Yum China offers delivery, payment, and pick-up options that don't require physical contact, so people don't have to touch each other as much and viruses don't spread as easily. They asked employees to have daily health tests during the epidemic and to stay at home with any symptoms of illness. They also asked employees to wear personal protective equipment and masks and regularly clean and disinfect the restaurant to prevent the spread of residual bacteria. In contrast, as Yum China's biggest rival in China, McDonald's has been notified of inadequate quarantine measures. This is because businesses don't follow through on their main responsibilities and don't take all the necessary steps to prevent and control epidemics [13]. The scanning code is not strictly implemented at the entrance of the restaurant for temperature measurement [13].

To further publicize their epidemic prevention policies so that customers can eat their products more safely. Yum China publicized its safety measures through the media so that Yum China can, to some extent, make consumers more favorable to the brand and feel more assured about having meals in Yum China's restaurants. By providing customers with new food delivery and ordering modes, this paper can guarantee the safety of the customers and their employees. As can be seen in Figure 2, the number of members of Yum China from 2020 to 2022 increased, which is an increase of about 36.7 percent over three years. That means at a time when the catering industry is generally losing customers, Yum China can maintain the continuous growth of its customer base, which has an important relationship with the implementation and publicity of its epidemic prevention policies.

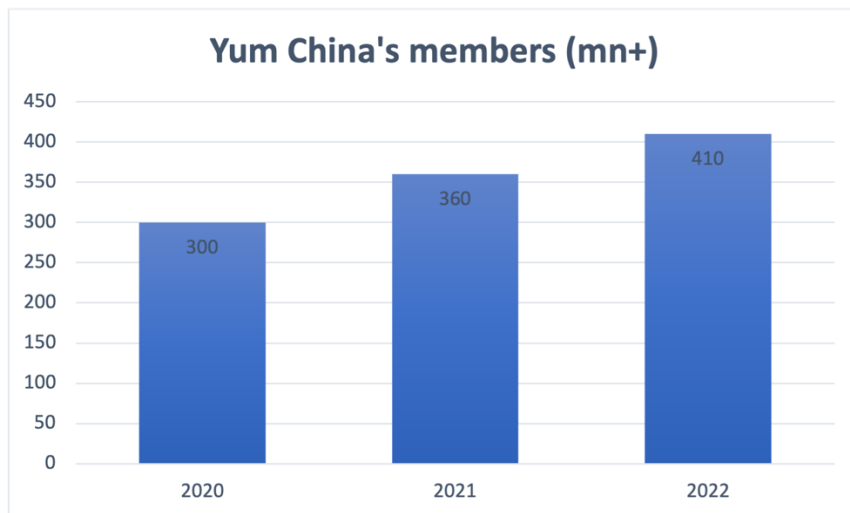


Figure 2: Increasing of Yum China's members [9].

3.3. The Issues of Strong Safety and Health Measures

Yum China's strong management of its supply chain makes sure that the chain won't break and that raw material prices won't go up during the epidemic. This is the third reason for the success of Yum China during the epidemic: it maintains business continuity, ensuring the availability of essential ingredients and supplies for its fast-food chains like KFC, Pizza Hut, and Taco Bell. To prevent supply chain disruption generated by emergencies, Yum China has about 32 logistics centers in China, covering almost every region, which to a large extent ensures its logistics distribution during the epidemic [14]. Setting up regional distribution centers across China makes it easier to keep track of inventory and make changes to restaurant orders in a timely manner. It can also greatly ensure the timely delivery of supplies. To enhance procurement efficiency and effectiveness, the company utilizes a central procurement model, enabling most restaurants to centrally purchase most food and

paper items from approved suppliers [15]. This model ensures quality control and improves pricing and terms through bulk purchases [15]. By signing bulk purchase contracts with suppliers, the price of raw materials will not change greatly due to the influence of the external environment, which effectively prevents the increase in cost. As one of the largest catering companies in China, Yum China's bargaining power is relatively high compared to suppliers.

With a good relationship of trust with suppliers, Yum China also has a stronger ability to get supplies first during shortages. Yum China's CEO, Joey Wat, said that their outstanding supply chain allowed them to lessen the effects of COVID-19 [14]. As part of their plan to manage revenue growth, they plan to invest in supply chain infrastructure to make their business more flexible and stable [14]. Yum China's strong supply chain can help it make sure that its stores all over the country will have the materials they need during the epidemic and that the stores will still be able to run normally. This is another guarantee for the company's costs and sales volume. The continuous supply of materials can avoid to some extent the loss generated by the risk of stock shortages for enterprises and also ensure that the sales volume will not be greatly affected by the epidemic.

4. Suggestions

4.1. Keep Going on Investing in Digitalization

Yum China should continue to increase investment in digitalization to ensure that the enterprise's digitalization process is at the leading edge of the industry. With the constant change in consumer preferences, consumers increasingly need fast, convenient, and personalized consumption experiences. This is the benefit of digital investment. Jose et al. found that digital technologies and the changes they bring to the daily lives of businesses have created new economic opportunities [16]. They opened new markets to new types of products and changed entire industries, dematerializing already commercialized products [14]. The dematerialized products brought by this digital technology have a high degree of flexibility, which can help the system uncover the needs of customers more quickly and accelerate the purchasing behavior of customers [16]. Klünder et al. also found that the dematerialization generated by digital technology will reduce fixed costs to some extent [17].

Digital technology can assist businesses in increasing consumer orders and sales. Yum China's continued investment in this technology after the pandemic can help the company better capture consumer demand and adjust its product categories and business strategies promptly. Through digitization, Yum China was able to enhance its market presence following the pandemic by collaborating with third-party platforms. The pandemic can help the company better capture consumer demand and adjust its product categories and business strategies promptly. Through digitization, Yum China was able to enhance its market presence following the pandemic by collaborating with third-party platforms. The users of the third-party platform know Yum China's brand when they are ordering food. With the continuous improvement of digital supply chain management, Yum China's operational efficiency and inventory management can be improved. That reduces labor costs and stock shortage risk when something goes wrong in the supply chain. Through digital investment, Yum China will be able to respond more quickly to market changes, maintain its position as an industry leader, and promote the long-term, stable development of the company. Continued cost cuts and increased sales have helped the company's net profit reach new highs.

4.2. Strengthen Safety and Health Measures

With the end of the epidemic, Yum China should pay more attention to food safety, and can appropriately reduce the policies issued on epidemic prevention. In 2022, Chinese regulators said

Pizza Hut, a restaurant brand owned by Yum China, had tampered with food expiration dates and found dirty kitchen conditions at two stores in Shanghai and Beijing [18].

Although Yum China has implemented epidemic prevention policies well during the epidemic, food safety, which should be the top priority of the catering industry, has been ignored. This is a problem that Yum China needs to adjust to quickly after the outbreak. For its employees, Yum China should strengthen supervision of the food supply in its stores and conduct regular internal spot tests. Set up a strict penal-ty policy, for not being in accordance with the provisions of the operation of the store, be punished and closed for rectification.

Yum China should require that its staff clean and maintain the kitchens regularly. This would make it less likely that food would get contaminated. Yum China should choose consistent and reliable suppliers for long-term work, set up the right systems for managing and keeping track of suppliers, and either go to court or cancel contracts with those who don't follow the rules. To better serve its consumers, Yum China should increase the number of ways they may provide feedback, address concerns, make changes promptly, and compensate those who have suffered due to food safety concerns. Yum China's long-term success depends on the company's shifting its health and safety emphasis to food safety. Problems with food safety will also have a devastating effect on the company's reputation. Increasing oversight of food safety can boost a company's reputation and contribute to its long-term success. Food safety issues will also generate great harm to the corporate image. Strengthening food safety supervision can improve the corporate image of the company and provide support for its sustainable development.

4.3. Strengthen Supply Chain Management

Yum China should keep working to improve supply chain management to make sure that the supply chain runs smoothly and reliably. Yum China CEO Joey Wat said that as a component of their revenue growth management strategy, they plan to invest in supply chain infrastructure to enhance the adaptability and resilience of their business [14]. To better improve supply chain management, Yum China should choose multiple suppliers to avoid risks.

By having a wide range of suppliers, Yum China can be less dependent on any one of them and less affected by things that don't go as planned. By signing long-term cooperation agreements with suppliers, Yum China can realize long-term stable supplies. In addition, strict supplier management policies should be formulated to ensure food safety, and suppliers who violate the regulations should be punished and terminated.

For Yum China, the most important goal is not only to make a profit but also to maintain a leading position in the Chinese market. In the Chinese catering industry, many competitors are competing and grabbing market share. Only through continuous improvement and innovation can Yum China keep its leading position. Through the continuous strengthening of supply chain management, Yum China can help its supply chain take a leading position in the industry. Yum China will continue to strengthen supply chain management in the future, which can help enterprises reduce the cost of inventory management and respond timely to inventory changes for effective adjustment. It can also help enterprises avoid business risks and reduce the risk of shortages generated by supply chain disruption. A strong supply chain will increase customer satisfaction. Being able to keep a good available whenever a customer wants to buy it goes a long way in fostering a relationship with the consumer.

5. Conclusion

Due to the outbreak of the epidemic, the global economy has been greatly affected. The catering industry has been the most affected at this time. This paper explores the strategic aspects of Yum

China based on the COVID-19 pandemic from 2019 to 2022. To explore why Yum China can still maintain strong competitive strength and stable profit when the whole catering industry is in a stage of arrested development. Through the analysis of Yum China's strategic policies of digital processing, epidemic prevention policy, and supply chain management, this paper found that Yum China can maintain its success in the epidemic because of its leading digital technology and equipment, strict epidemic prevention policy with rapid response, and strong supply chain management mode.

The study is very important for people in the food service industry who are affected by the epidemic. By understanding the strategic layout of China's largest catering company, it can timely adjust the strategic policies and form competitive advantages after the epidemic. For those in the emerging restaurant industry, Yum China's strategic landscape can help them determine where they need to focus their development. However, due to the lack of data, it was not possible to verify whether Yum China's investment in supply chain management has increased amid the epidemic. More reasons for Yum China's success in the epidemic still need to be verified. In addition, all the analyses in this paper are based on the results of the whole year rather than specific analyses for some special periods, which has limitations. Therefore, in the subsequent research, more exploration will be conducted on the reasons for Yum China's success in the epidemic. And need to focus on a much shorter time horizon, which can be analyzed quarterly.

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