

# The Food Industry under Consumer Downgrading: Taking Liangpinpuzi as an Example

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**Abstract.** In the wake of the pandemic, the economy has experienced significant volatility, leading to shifts in consumer behavior towards more cautious spending and a focus on cost-effective choices, a trend known as "consumption downgrade." This shift has impacted various industries, including the snack industry, where brands like Liangpinpuzi are navigating these changes. Liangpinpuzi, a Chinese brand focusing on "high-end snacks," faces challenges and opportunities in this new landscape. Using Porter's Five Forces Model, writer can analyze the impact of consumption downgrading on Liangpinpuzi. The model evaluates the bargaining power of buyers, suppliers, competitive rivalry, threat of substitutes, and potential new entrants. For Liangpinpuzi, factors like price sensitivity, supplier relationships, competition from lower-priced alternatives, and the emergence of new market players are crucial considerations. To respond effectively to consumption downgrading, Liangpinpuzi can implement strategies focusing on pricing adjustments, product diversification to cater to changing consumer preferences, innovative marketing campaigns to highlight value propositions, and enhancing brand image to differentiate itself in the market. By understanding the implications of consumption downgrade and developing tailored strategies, Liangpinpuzi can adapt to the evolving consumer landscape, strengthen its market position, and drive sustainable growth in the snack industry. This analysis provides valuable insights for businesses looking to navigate the challenges posed by changing consumer behaviors in a volatile economic environment.

**Keywords:** Food industry, consumer downgrading, Liangpinpuzi.

## 1. Introduction

The slowdown in economic growth has constrained the purchasing power of consumers to a certain extent, limiting their consumption level and making them tend to choose more affordable and necessary consumer goods. Therefore, consumption degradation has become a significant feature of today's social consumption trend [1].

From the perspective of resident consumption structure in 2022, the proportion of food consumption in resident consumption has shown an increase, and the Engel's coefficient of national residents has returned to the 30% mark since 2020 [2]. Food consumption accounts for 33% of the total expenditure of rural residents, leading to a phenomenon of "consumption degradation" [3].

Liangpinpuzi has established "high-end snacks" as its strategic development direction, focusing on creating healthy, delicious, and creative snacks. So, this article takes Liangpinpuzi as an example to analyze the impact of consumer degradation on the food industry.

## 2. Basic Information of Liangpinpuzi

Liangpinpuzi has formed five major product systems, including nut stir fry, dried fruit, meat snacks, vegetarian mountain delicacies, and candies, presenting diversified characteristics. The company has a rich product line, covering 17 product lines, including meat snacks, seafood snacks, vegetarian mountain delicacies, preserved plums, dried red dates, nuts, stir fried foods, beverages, tangqiao, canned jelly, flower tea preparation, baked pastries, biscuit puffing, convenient fast food, gift boxes, children's snacks, etc.

The company has established "high-end snacks" as its strategic development direction, continuously creating high-quality, aesthetically pleasing, and user experience products and services. The products focus on creating healthy, delicious, and creative snacks.

### 3. The Situation of Good Product Shop under Porter's Five Forces Model

#### 3.1. Analysis of Existing Competitors

In the macro context of consumer degradation, there are many competitors in the same industry as Liangpinpuzi. Multiple enterprises producing the same product will inevitably take various measures to compete for buyers, thus forming fierce market competition.

From the perspective of the snack industry, there are many snack industry giants with severe product homogenization [4]. According to research data from Huatai, from 2021 to 2022, the number of mass-produced snack shops in China has grown at a rate of over 100%. As of the first half of 2023, the number of mass-produced snack shops in China may have exceeded 16000. There are several companies that are positioned as high-end snacks, just like Liangpinpuzi. Among them, the main businesses that are similar to Liangpinpuzi are Three Squirrels and Baicaowei.

Marketing performance of Liangpinpuzi: According to financial report data, from 2020 to 2022, the revenue growth rate of Liangpinpuzi was 2.32%, 18.11%, and 1.24%, respectively, significantly slowing down compared to before going public. In the 2021 annual report, the revenue achieved during the reporting period was 9.324 billion yuan, a year-on-year increase of 18.11%; The net profit attributable to the parent company was 282 million yuan, a year-on-year decrease of 18.06%; The net profit after deduction was 206 million yuan, a year-on-year decrease of 25.15%. The data shows that the company's main revenue in 2022 reached 9.44 billion yuan, a year-on-year increase of 1.24%; The net profit attributable to the parent company reached 335 million yuan, a year-on-year increase of 19.16%; The net profit after deduction reached 209 million yuan, a year-on-year increase of 1.46%. Entering 2023, the company's performance has been continuously declining, with only a revenue of 2.013 billion yuan in the third quarter, a year-on-year decrease of 4.53%; The net profit attributable to the parent company was 1.9984 million yuan, a year-on-year decrease of 97.88%.

Marketing performance of Three Squirrels: In 2021, Three Squirrels achieved a revenue of 9.77 billion yuan, a decrease of 0.24% from 9.794 billion yuan in the same period of 2020, marking the second consecutive year of revenue decline for Three Squirrels; The net profit attributable to shareholders of the listed company was approximately 411 million yuan, an increase of 36.43% year-on-year. In the 2022 annual report, the company achieved a revenue of 7293157824.12 yuan during the reporting period, a year-on-year decrease of 25.35%; The net profit attributable to shareholders of the listed company was 129057352.25 yuan, a year-on-year decrease of 68.61%. In the first three quarters of 2023, the operating revenue of Three Squirrels was 4.582 billion yuan, a year-on-year decrease of 14.07%; The net profit attributable to shareholders of the listed company was 170 million yuan, a year-on-year increase of 81.42%.

Marketing performance of Baicaowei: In June this year, Baicaowei's sales reached 110 million yuan, a year-on-year decrease of 30.0%, of which sales decreased by 38.8% year-on-year, and the average price increased by 14.5% year-on-year.

The marketing performance of all three companies reflects the trend of declining revenue in the context of consumer downgrading. To maintain profitability, the competition between enterprises is becoming increasingly fierce, which undoubtedly increases the competitiveness of existing competitors for Liangpinpuzi.

#### 3.2. Potential Competitor Analysis

The lower the barriers to entry in the snack industry, the greater the threat of potential competitors that good food stores face. Due to the low technological and investment barriers in the snack food industry, more and more producers are joining the industry, intensifying competition [5]. The category and scale of leisure snacks in China have been continuously growing, from the initial market

size exceeding 800 billion yuan in 2016 to gradually reaching 140 billion yuan in 2022 and have also maintained a relatively stable growth rate [6]. From this development trend, the potential competitive pressure faced by Liangpinpuzi is gradually increasing.

### 3.3. Alternative Analysis

The snack industry has a wide variety of categories, and consumers can easily find products with similar or even more unique flavors to meet their purchasing needs. In the face of large-scale consumer downgrading behavior, if the prices of good product stores continue to rise, the opportunities for other substitutes to attract consumers will greatly increase, and the threat of substitutes will be even greater.

Leisure food is a consumer product with high substitutability for various products in the mid to low end market. The high-end leisure food market, due to its excessive pursuit of customer psychological factors, also occupies a brand strategic advantage. Consumers of high-end snacks rely heavily on snacks, and Liangpinpuzi's brand positioning is high-end food. Therefore, the substitutability of Liangpinpuzi's industry is relatively weak.

### 3.4. Analysis of Bargaining Power of Suppliers

Due to the large number of substitutes in the snack industry where Liangpinpuzi operates, this can lead to an increase in the bargaining power of its suppliers. This is because a supplier may serve multiple similar enterprises, and the stronger the bidding power of distributors, the less opportunities they will have for suppliers to negotiate [7]. However, it is evident that Liangpinpuzi's suppliers still have strong bargaining power towards them.

According to data, Liangpinpuzi is very cautious in selecting raw material suppliers and snack processing plants. 80% of the processing plants need to undergo company rectification. Moreover, Liangpinpuzi will participate in food production, processing, and full process control as much as possible to present consumers with the most perfect taste of food. But this "OEM+sales" model cannot reach the production end of the product, which will make Liangpinpuzi lose its bargaining power with suppliers, that is, improve their bargaining power [8].

### 3.5. Analysis of Buyer's Bargaining Power

The snack industry has a wide variety of categories and sales channels, and the sales environment is relatively stable. The market demand is also relatively stable. Even if the market environment is in the stage of consumption degradation, customers still have many choices. They can choose not to buy high-quality products at relatively high prices because their conversion costs are low, and the differentiation of products sold by major companies is not very high, giving customers a lot of choices. Therefore, the bargaining power of buyers is relatively high.

Moreover, the transparency of the snack sales industry is high, allowing customers to freely choose the products they need and compare them among different merchants to find products with higher cost-effectiveness. The higher the selectivity, the higher the bargaining power of buyers towards merchants.

Furthermore, snacks belong to impulsive food consumption, and the main factors that affect consumer purchases are geographical environment, store decoration, lighting display, personnel service, etc. [9]. If these are not done well, there will be no guarantee of consumption occurring, and one's own food cannot guarantee long-term sales power. It can be seen that the bargaining power of buyers is still high for good quality stores.

## 4. The Impact of Consumer Downgrading on Good Product Stores

The downgrading and substitution of consumption have had a profound impact on both the social economy and businesses. For consumers, downgrading their consumption allows them to purchase the goods and services they need at lower prices, although excessive pursuit of low prices may reduce

the consumption experience. For enterprises, consumer downgrading has increased market competition pressure, forcing them to attract consumers by lowering prices, improving product quality, and other means. At the same time, alternative consumption also prompts enterprises to constantly innovate and provide more competitive goods and services.

#### **4.1. Price Adjustment**

Liangpinpuzi initially focused on high priced food as its main product, but as consumer demand for affordable and cost-effective products increased, Liangpinpuzi had to adjust its pricing strategy, launch more products with relatively lower prices, and lower the prices of existing products to meet consumer purchasing power and needs.

#### **4.2. Product Adjustment**

To adapt to the trend of consumer downgrading, Liangpinpuzi has launched more affordable and practical products, such as small, packaged snacks, economy clothing, etc. These products not only have relatively low prices, but are also suitable for personal or household consumption, meeting the needs of consumers who pay more attention to cost-effectiveness and practicality.

#### **4.3. Market Share Increase**

As Liangpinpuzi adapts to the trend of consumer downgrading and launches more affordable products, consumer purchasing pressure is reduced, and more consumers tend to purchase products from Liangpinpuzi. This has led to a continuous increase in the market share of Liangpinpuzi, improving brand awareness and competitiveness.

#### **4.4. Brand Image Maintenance**

Despite lowering product prices, Liangpinpuzi has not compromised on product quality and brand image. Liangpinpuzi continues to maintain high requirements for product quality and wins the trust and loyalty of consumers by launching high-quality and cost-effective products [10].

### **5. Liangpinpuzi's Response to Consumption Downgrading Strategy**

#### **5.1. Marketing Strategy**

In the context of consumer degradation, Liangpinpuzi needs to adjust its market positioning and product strategy. In the past, Liangpinpuzi mainly focused on providing high-quality leisure food as its main selling point, but in the context of consumer degradation, consumers pay more attention to cost-effectiveness. Therefore, Liangpinpuzi should develop a product line that better meets the needs of lower tier cities and economic consumers through market segmentation, such as launching a series of products with more affordable prices and simpler packaging. At the same time, Liangpinpuzi can also use digital marketing tools such as social media, e-commerce platforms, etc. to increase brand awareness and consumer purchase intention.

#### **5.2. Financial Strategy**

Liangpinpuzi needs to examine its cost structure and profit model. Under the impact of consumption downgrading, enterprises must pay more attention to cost control to maintain a reasonable profit margin. Good quality stores can reduce raw material and production costs by optimizing supply chain management; Meanwhile, it is also possible to reduce unnecessary expenses by improving operational efficiency. In addition, Liangpinpuzi should attach importance to cash flow management to ensure the financial stability of the enterprise in the face of market fluctuations.

### 5.3. Management Strategy

Liangpinpuzi needs to strengthen internal management and organizational structure adjustment in response to consumer downgrading. Liangpinpuzi can improve the work efficiency and innovation ability of employees through incentive mechanisms; At the same time, enterprises should also strengthen their research on market trends in order to adjust their business strategies in a timely manner. In terms of organizational structure, Liangpinpuzi should promote coordination and cooperation among departments, and develop the ability to quickly respond to market changes.

In summary, when facing the challenge of consumer degradation, Liangpinpuzi needs to develop reasonable response strategies from multiple dimensions such as marketing, finance, and management. By adjusting product and market strategies, optimizing cost structure, and improving operational efficiency, as well as strengthening internal management, Liangpinpuzi is expected to maintain competitiveness in the changing market environment and achieve sustainable development.

## 6. Conclusion

Downgrading consumption has become a significant feature of today's social consumption trend in the context of economic slowdown. This study selected Liangpinpuzi as the research object and analyzed the impact of consumer degradation on the food industry from multiple dimensions. When facing the impact of consumer degradation, enterprises need to formulate reasonable response strategies from multiple dimensions such as marketing, finance, and management. And by adjusting product and market strategies, optimizing cost structure, and improving operational efficiency, strengthening internal management, sustainable development can be achieved. This article mainly analyzes Liangpinpuzi, which may have some one-sidedness. Other enterprises need to further discuss based on the actual situation.

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