



 FUNG BUSINESS INTELLIGENCE

Asia Distribution and Retail

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*Research for this report was completed before the outbreak in China of the coronavirus disease 2019 (COVID-19), along with stringent government measures to contain it, began impacting domestic consumption, supply chains, logistics and other major economic activities in China and beyond. Fung Business Intelligence is monitoring developments closely and shall bring you our latest findings in upcoming reports and regular updates.*

## Background

China's catering industry has moved towards high-quality development and undergone rapid transformation and upgrading in recent years. Increasing numbers of catering enterprises have stepped up efforts to enhance product and services offerings, while adopting innovative business models in a bid to better satisfy consumers' higher expectation and increasing demand for quality catering services. In particular, wider access to the Internet and state-of-the-art technologies enables catering enterprises to develop new services models that leverage resources from multiple channels, allowing customers to order online and pick up or enjoy their meals in-store. Manpower is replaced with smart technologies; this trend encourages the launch of smart and unmanned restaurants.

This article highlights four key facts/ trends shaping the development of China's catering industry.

*This article is an update of an article published earlier in the **Blue Book of China's Commercial Sector (2019-2020)** ("Blue Book"). Published in October 2019, the Blue Book tracks developments in China's commercial sector to provide a comprehensive and authoritative account of latest trends and issues. Sectors covered include retail and e-commerce, internet finance, logistics and catering. Also included is detailed analysis of China's consumer market and of the changing preferences and behavior of Chinese consumers. It is an essential resource for businesses, analysts, scholars and governments to gain further insight into this fast-evolving sector.*

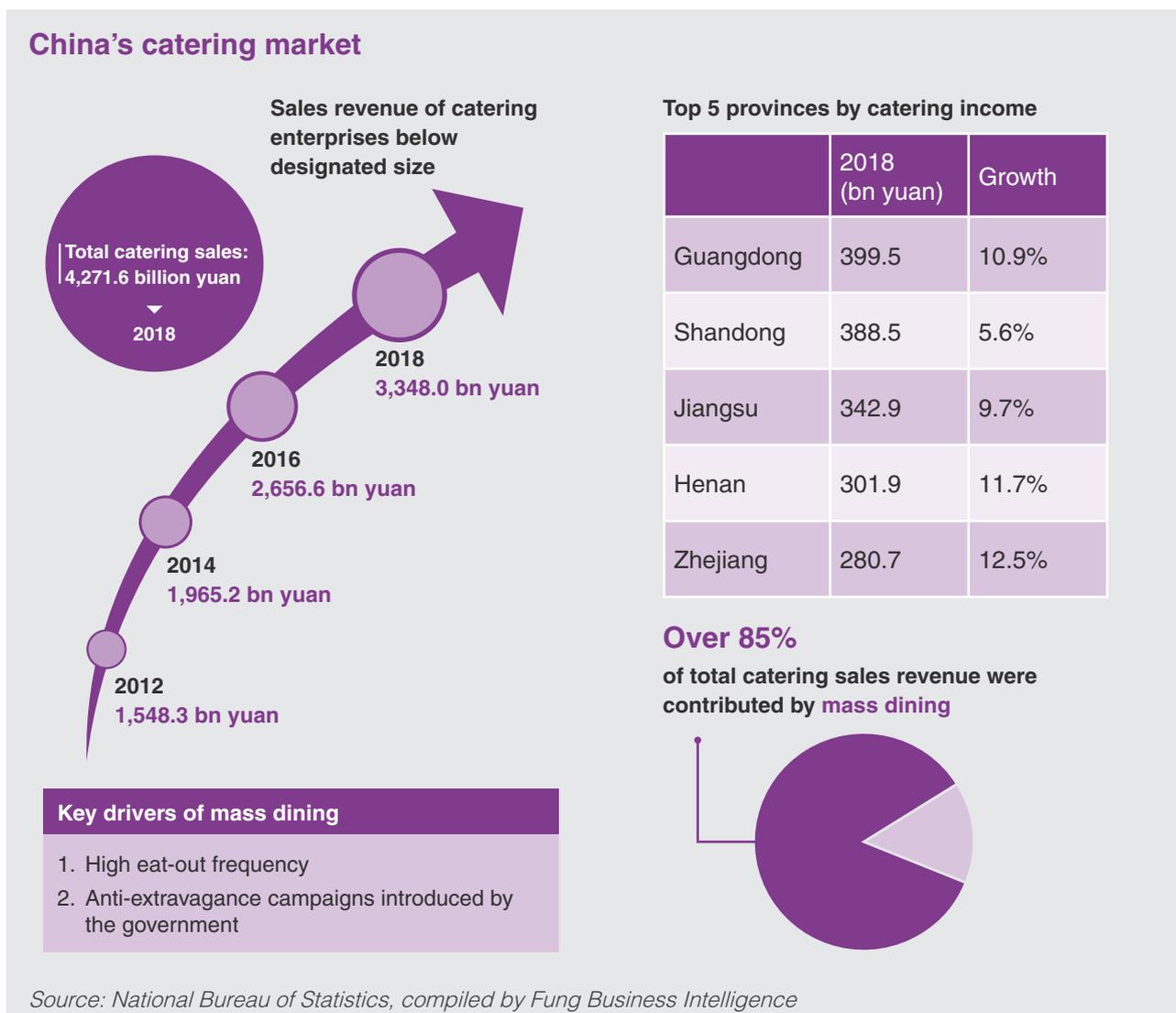
Please visit <https://www.fbicgroup.com/?q=book/blue-book-china%E2%80%99s-commercial-sector-2019-20> for more information about the Blue Book.

# 1. Mass dining continues rapid growth, playing a crucial role in promoting structural changes in the catering industry

Backed by a sheer population size of nearly 1.4 billion people, China's mass dining segment has registered robust growth in recent years, accounting for over 85% of total sales revenue in the catering industry. Dominating the market in terms of market share, scale and growth rate, the mass dining segment has been leading the transformation and upgrading of the catering industry.

The robust growth of the mass dining sector has been driven mainly by (1) high eat-out frequency of Chinese consumers, which has increased the per capita spending on catering services and fuelled the demand for mass dining services; and (2) the ongoing frugality and anti-extravagance campaigns introduced by the government since 2012 to regulate government officials' expenses on overseas trips, vehicles and receptions have weighed on traditional high-end dining segment and accelerated structural changes in the industry, with traditional upscale dining gradually phased out, while casual dining becoming a new growth point.

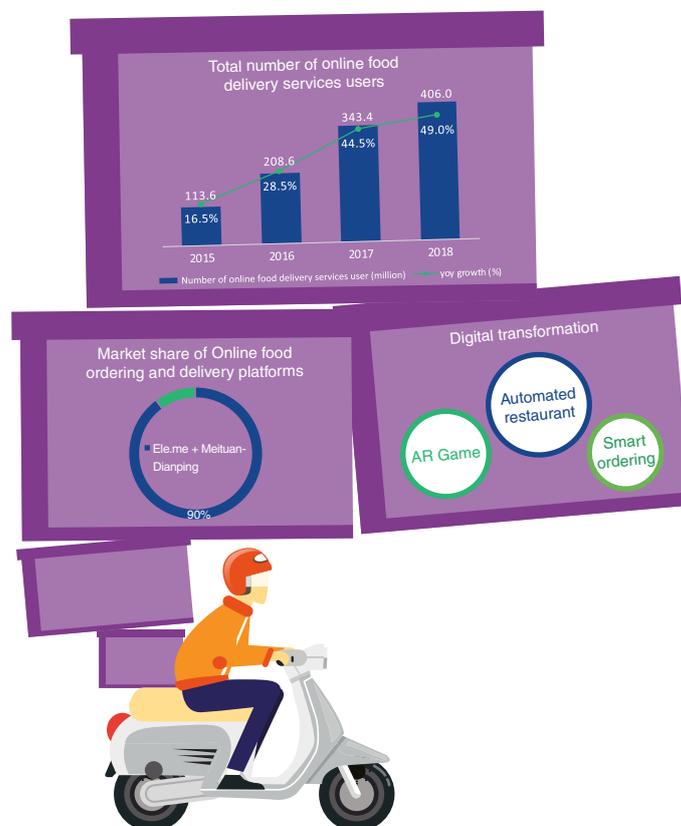
Positioned to target the mass market, catering enterprises below designated size have seen steady sales growth in recent years. In 2018, sales revenue of catering enterprises below designated size reached 3.3 trillion yuan, up 12% yoy, maintaining a double-digit growth and outpacing the yoy growth rate of the total sales of the catering industry for six years in a row.



## 2. O2O facilitates the rapid growth of online food delivery market

Driven by the government's "Internet Plus" initiative, the catering service sector, which features the provision of experiential services and consumption of tangible products, provides a good testing ground for online-to-offline (O2O) development. Some Internet players and catering enterprises are actively trialing various types of O2O business models. Online food ordering and delivery platforms, in particular, are proliferating and becoming indispensable in everyday living. More and more traditional catering enterprises leverage these platforms to expand their service scope and, improve service competency. Partnerships between online food delivery platforms and various restaurants and food service providers not only optimize supply-demand balance, enabling better capacity planning, but also greatly reduce the operating cost for food delivery services, driving the growth of online food delivery services across the country. Currently, Alibaba-owned online food delivery platform Ele.me, along with Tencent-backed online group buying and food delivery service provider Meituan-Dianping are dominating China's online food delivery market, with the two companies together taking up over 90% of share in the market.

The rise of online food delivery platforms has played a vital role in accelerating the growth of food delivery market. In 2018, the total transaction value of China's online food delivery market topped 250 billion yuan, up nearly eightfold from 2012. The growth is expected to continue into 2019 and 2020. At the same time, the total number of online food delivery services users also increased significantly to over 400 million in 2018, up from 113 million in 2015.



Source: iResearch, limedia.cn, Chyxx.com, Askci.com, National Academy of Economic Strategy of the Chinese Academy of Social Sciences, compiled by Fung Business Intelligence

### 3. Digital transformation accelerates in the catering industry

Technology advancement is driving change and growth in the catering industry. Over recent years, many catering enterprises have undergone digital transformation to deliver new services models and product offerings, while achieving higher operational efficiency. Wider access to the Internet and state-of-the-art technologies such as the Internet of Things (IoT), robotics and facial recognition solutions has encouraged the launch of smart and unmanned restaurants. As a case in point, in July 2018, Alibaba launched its first highly automated restaurant "Robot.he" within one of its Freshippo supermarkets in Shanghai. The new robot-enhanced restaurant draws on advanced digital tools including the Hema app, QR codes and robots to create a futuristic dining experience – the Hema app shows customers where to sit in the restaurant and is used to scan QR codes for browsing the menu, ordering food and making payments; customers can buy fresh produce from the Freshippo supermarket which is then delivered to the kitchen via ceiling-mounted conveyor belts; once the food is cooked, small box-like robots, acting like self-driving cars on roads, travel along tracks to deliver the food direct to customers' dining tables. Another robot collects the dishes and returns them to the kitchen for cleaning.

Similarly, JD.com also rolled out its first fully robotically-run restaurant, X Cafe in Tianjin in November 2018. The restaurant adopts robotics and artificial intelligence-powered technologies in the entire restaurant operation, from ordering, preparing, cooking, plating to serving; after customers place orders, robots in the kitchen are assigned the orders and begin preparing dishes. After food preparation, a different set of 'server' robots then deliver the plates to the dining areas for customers to pick up.



Freshippo's Robot.he restaurant in Shanghai

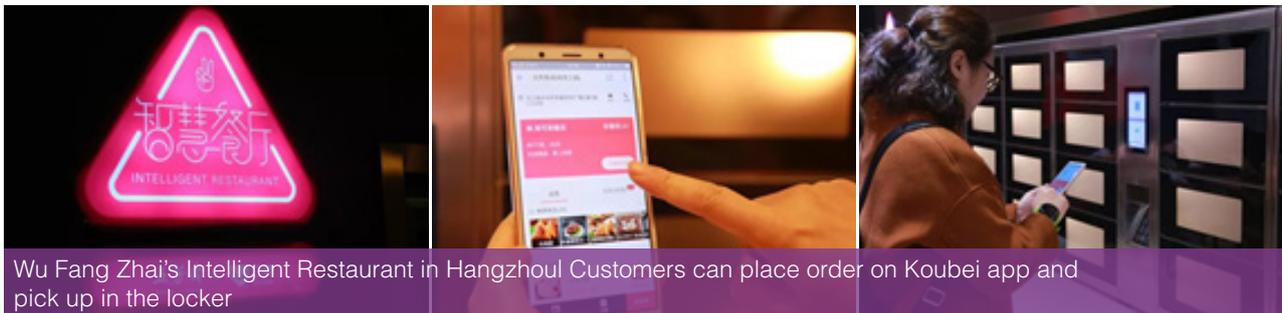
Photo source: [kknews.cc](http://kknews.cc)



JD.com's X Cafe in Tianjin

Photo source: [Linkshop](http://Linkshop)

Another example is Zhejiang-based Wu Fang Zhai restaurant. The century-old restaurant partnered with Alibaba's local lifestyle services unit Koubei to transform one of its restaurants in Hangzhou into a smart restaurant "Wu Fang Zhai. Koubei Intelligent Restaurant" in January 2018. Customers can scan the QR code from their table to place order through the Koubei app. The app will notify them when their order is ready which they pick up from the assigned locker. Customers can also place order before they arrive the restaurant. Moreover, customers can play augmented reality games on the app to earn discount coupons. It is reported that Wu Fang Zhai 's revenue, repurchase rate and per customer transaction increased by 40%, 47.5%, and 14.5% respectively after the digital transformation.



Wu Fang Zhai's Intelligent Restaurant in Hangzhou Customers can place order on Koubei app and pick up in the locker

Photo source: [www.wufangzhai.com](http://www.wufangzhai.com)

## 4. Catering industry becomes a hotspot for cross-sector expansion

In recent years, cross-sector expansion has come to the fore in China's catering market. Increasing numbers of major domestic supermarket operators have introduced catering services into their retail outlets. Some pioneers include Alibaba's Freshippo supermarkets, Yonghui Superstores' Super Species stores, JD.com's 7Fresh stores and Bailian Group's Riso stores. They have launched in-store dining/ catering services to enhance customer experience. More recently, in December 2019, JD.com launched a small-scale lifestyle supermarket "Seven Fun" in Beijing. Seven Fun positions itself as a venue offering a unique combination of "dining + drinking+ social" experience. Apart from selling groceries and other daily necessities, Seven Fun also offers breakfast, lunch, afternoon tea, dinner, wine and drinks. It features 12 selected eateries, which offer international delicacies including three bars offering wine, Japanese sake and craft beer.



Photo source: Linkshop, ccn.com.cn

Other than supermarket operators, some shopping mall and department stores operators have crafted out more retail space for the catering segment or invited unique restaurant operators to open restaurants in their location, in the hope of creating better shopping experience to drive higher foot traffic. In December 2019, luxury department store SKP Beijing partnered with Gentle Monster, a renowned, trendy Korean eyewear brand, to open SKP-S, a hip version of the flagship department store across the street. Gentle Monster introduced its artistic dessert brand Nudake, which is well-known for combining fashion and art to create unique desserts, to the new department store via the opening of Mars Café. Mars Café is also Nudake's first official offline store.



Photo source: <https://www.gooood.cn/>

## Comments from Fung Business Intelligence

China's catering industry has entered a new era of innovation and high-quality development. Driven by the rising spending power among the country's population of 1.4 billion and the ongoing consumption upgrading trend, the catering industry is expected to undergo further upgrading and transformation. Technological advancement and the proliferation of online food service platforms will continue to pave the way for digital transformation and modernization in China's catering industry. To stand out in the highly competitive and consumer-driven market, catering enterprises need to reinvent themselves constantly in order to stay innovative and be flexible to adjust quickly to meet the evolving market needs. Also, it is vitally important for operators to leverage advanced technologies to constantly improve business efficiencies, and enhance food safety, while better adapting to the changing needs of consumers.

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