Fast Food Industry Growth in China

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Introduction:

Over the last decade, fast food industries in china have dramatically increased. Several international enterprises have moved and expand their brands in china markets and trade-holders since 1990. This paper will discuss the Chinese fast food consumption and supply and will give account to the factors affecting it favorably like the increase in household income, changes in Chinese lifestyle, growth in population size, emergence of many foreign brands and players, technological advancement, and the introduction of franchising regulations. It will also highlighted on the increasing health concerns which could possibly affect the Chinese fast food consumption and supply in the longer run. The paper will also talk about the elasticity of demand and how the availability of many substitutes will make demand highly elastic in the Chinese fast food industry, which shall imply that any slight change in prices of fast food products by any company will affect demand for that company's product adversely to other substitutes / company products. Finally it will discuss the Chinese fast food non-collaborative oligopolistic market structure.

Analysis:

China is prominent market that attracts major international companies to take part in its economic development. It has a population of 1.378 billion in 2016, which accounts for 27% growth over 1987. Relatively, the overall economy has witnessed dramatic growth by 4003% during the period from 1987 to 2016, according to World Bank statistics (Wei et al., 2017).

This have urged the international fast food players to enter the Chinese market. Now the Chinese fast food industry generates USD 150.9 billion in 2017 which accounts for 9.6% growth over 2016, according to Estimates by IBISWorld (IBISWorld ,2017). Below we will exhibit this industry and factors affecting it.

Demand and supply:

Factors affecting demand positively:

According to a study by the reserve bank of Australia, the real household incomes in China have averaged annual growth of 10% over the past two decades (Stratford and Cowling, 2016). As household income increases, disposable income increase as well which shall affect the society's demand for fast food and make them shift towards more comfortable ways of living, hence they will spend more on readymade food. Additionally, Chinese life style is getting faster with urbanization and industrialization. The economic reforms that began in the late 1970s has increased the rural–urban migration and after the accession of China to the World Trade Organization in 2001 it has even accelerated. Over past decade, the share of population living in an urban areas increased by 13% to 50% (Rush, 2011). Also the dependency ratio has dropped from near 80s% in 1975 to near 40s% in 2010.

Shift in a demand curve

According to the above, demand is shifting to the right which will stimulate growth in market size, and accordingly equilibrium price and quantity will be higher.

Factors affecting supply positively:

First foreign fast food brand entering the Chinese market was KFC in 1987, followed by McDonald's which opened its first branch in 1990 (Yan, 2013). These two companies are now dominating the Chinese fast food market with nearly 70% market share in 2012 (Roth et al., 2008). This has introduced new type of products and tastes. Furthermore, the Western fast food companies have introduced new concepts of chain restaurants management, advanced business models, quality operations and services, cleanliness standards, process efficiency, hourly employment system, successful staff training, modern marketing and promotion techniques, etc. Additionally, franchising law has been introduced in China in 2005 which have lowered the barriers of entry into the Chinese market and facilitated the emergence of new players into the market.

Shift in a supply curve

According to above factor, supply is shifting to the right, and accordingly the quantity supplied will be higher and the equilibrium price will decline.

However, health concerns on fast food products shall exert a negative force on development of this market in the long run. The fast food served by the Western brands has low-nutrient, and is high in sugar and saturated fats, which increases the risk of obesity, diabetes, blood pressure, etc. China has now become the largest country worldwide in terms of overweight population, with around 43 Million obese men (10.8%) and 46 million obese women (14.9%) (Wang et al., 2007). The Chinese consumer is becoming more concerned about food safety. According to survey by McKinsey & Company on 10,000 consumer from 44 different Chinese cities, the number of Chinese consumers willing to buy western fast food has dropped by 16% from the period 2012 to 2015 (Zipser et al., 2016). To respond to health risks presented by fast food products, the central government in China has introduced a plan called Healthy China 2030 which aims to make China a healthy state by 2030 (Tan et al., 2017). The plan will include the introduction of health education into school curriculum to promote “health as habit”.

Elasticity of Demand:

The Chinese fast food industry is dominated by few main companies like Yum Brands (KFC & Pizza Hut & etc.), McDonalds, Taiwanese restaurant chain called Dicos, and Master Kong which is serving local-style fast food, etc (Zhu, 2006). This business environment provides variety of substitutes to customers which will make the fast food products highly elastic for any change in price. Hence any increase in price will have an adverse effect on the demand curve which will lead to decrease in quantity demanded drastically.

Market structure (Oligopoly) :

The strong competition between the big brands especially KFC and McDonalds led to open new branches in most cities in china. This competition also stimulated the start of new domestic fast food restaurants. These companies compete with each other to gain bigger share of the market and they would implement different strategies to arrive their objective.

This represents a non-collusive oligopoly market structure. Due to the fierce competition in the Chinese fast food industry to gain market share, many companies choose to compete by following standardisation and localisation strategies (Watson, 2006). Companies are less likely to follow products' price increase because of consumer's price sensitivity.

However they are more likely to respond to price reduction to maintain market share. This represents a kinked demand curve model. For instance, KFC and McDonald are adapting to the Chinese consumers' price and had to reduce price of the Best of Menu product from 7 Euros in Europe to equivalent 2.3 Euros in China. This indicates that companies will not follow an increase in products price, but will more likely follow decrease in market prices.

Conclusion:

This study has shown the fast food industry in China and discussed the factors affecting the demand and supply. It suggests that the market enjoys a non-collusive oligopoly and is elastic in terms of demand and supply due the presence of many competitors and substitutes. The demand and supply is expanding however health concerns could exert negative pressure on the curve.

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