

Research on cost control in the leisure food industry under the new retail model: Take BESTORE as an example

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Abstract: *An important way to achieve sustainable development and profitability in a fiercely competitive market environment is to reasonably control costs, which is both a need for the development of the enterprise itself and an inevitable requirement in the process of economic development. This paper takes BESTORE, a casual food company, as an example, to explore the cost control of BESTORE, identify the problems and put forward targeted improvement measures, in order to provide some reference for BESTORE cost control through these measures and improve its competitiveness.*

Keywords: *cost control; new retail; e-commerce model; BESTORE*

1. Current company development

Established in 2006, BESTORE is a professional brand chain company integrating research and development, processing and production, and retail services of casual food ^[1]. In 2019, BESTORE has established "high-end snacks" as its strategic development direction, selecting the best ingredients and building them with care.

Today, BESTORE has maintained a significant market share in a highly competitive market environment with its comprehensive advantages such as omni-channel, omni-category and multi-brand. However, against the backdrop of serious product homogenisation in the casual food industry, BESTORE's competitive edge in terms of sales price has been weakened. In the face of rising costs, BESTORE's cost management and control is an important part of further enhancing its profitability and core competitiveness.

2. The principles of cost control

(1) The principle of comprehensiveness

The principle of comprehensiveness means that the enterprise controls the entire link and process of cost. Total control means that the company has to control all the costs of the production process. Cost control means that all staff within the company need to have the awareness of cost control, not only to recognise the importance and criticality of cost control but also to participate in the control of costs. The whole process of control means that the company controls the whole process from the production to the final sale of the product, including the development, planning, production and trading of the product, without focusing on a single area. The end result of the control should be reflected in the relevant reports, and the problems in the company's cost control process should be identified and corrected and improved in due course.

(2) The principle of exception management

The principle of exception management means that the company needs to focus on some aspects of cost control that are not routine and do not take up a lot of time in the routine control. When the difference between the budgeted costs and the actual costs incurred is not significant, the main causes can be analysed without spending a lot of time. In the day-to-day management, it is important to focus on non-routine examples, to strengthen monitoring and management, and to provide regular analysis and feedback.

(3) The principle of economic efficiency

The principle of economic efficiency means that the measures taken and costs incurred by a company in implementing cost control need to be limited to the most economical extent possible and must not exceed the benefits reduced by the lack of cost control. Economic efficiency refers to economic news from a macro perspective and economic efficiency from a micro perspective, and refers to the ultimate success of economic activities and the comparison of costs incurred and results obtained afterwards.

3. Analysis of the current state of cost control

Table 1: Data relating to operating income, 2019-2021

Projects	2019	2020	2021
Operating income (RMB million)	771499.29	789407.64	932361.21
Year-on-year growth rate (%)	20.973	2.32	18.11

BESTORE's operating revenue continued to grow during 2019-2021, with revenue growth achieved across all channels and year-on-year growth of approximately 21% and 16% for online and offline respectively in 2021. However, along with the growth in operating revenue, BESTORE is also caught in the dilemma of increasing revenue without increasing profit. The following is an analysis of BESTORE's cost control in four major areas: R&D, purchasing, sales and overheads, as shown in Table 1.

3.1 R&D costs

Table 2: Data relating to R&D costs 2019-2021

Projects	2019	2020	2021
R&D expenses (\$ million)	2736.30	3371.70	3966.50
Year-on-year growth rate (%)	31.50	23.22	17.64
Revenue share (%)	0.35	0.43	0.43

BESTORE's R&D investment costs for 2019-2021 will increase year on year, but the growth is small and accounts for less than 1% of revenue. 2021 will have little effect, although the Company continues to increase its investment in product R&D to achieve continued breakthroughs in product technology development and focus on core category R&D and cutting-edge technology reserves, as shown in Table 2.

3.2 Procurement costs

Table 3: Data relating to procurement costs 2019-2021

Projects	2019	2020	2021
Procurement costs (million)	515645.79	529355.36	667681.11
Year-on-year growth rate (%)	18.16	2.66	26.13
Revenue share (%)	66.84	67.06	71.61

BESTORE has established a "sales-based" procurement model in line with the company's own development characteristics. As sales grow in size, purchasing costs increase accordingly^[2]. In 2021, BESTORE's procurement costs will account for over 70% of its revenue, which will inevitably place a heavy burden on the company, as shown in Table 3.

3.3 Cost of sales

Table 4: Cost of sales related data 2019-2021

Projects	2019	2020	2021
Selling expenses (million)	158125.48	128803.21	167224.78
Year-on-year growth rate (%)	27.47	-18.54	29.83
Revenue share (%)	20.50	16.32	17.93

BESTORE's cost of sales fluctuates significantly during 2019-2021. 2021 BESTORE's promotional expenses increase significantly, and the Company promotes exposure to attract traffic by increasing the cost of accurate promotion to drive sales growth, where the social e-commerce business increases with the increase in scale and the investment in promotional expenses, as shown in Table 4.

3.4 Overheads

Table 5: Data relating to administrative expenses 2019-2021

Projects	2019	2020	2021
Overheads (\$ million)	41088.95	37670.04	47721.78
Year-on-year growth rate (%)	7.11	-8.32	26.68
Revenue share (%)	5.33	4.77	5.12

BESTORE's management costs have fluctuated over the past three years. 2021, the change in BESTORE's management costs is mainly due to the increase in personnel costs. On the one hand, with the scale of the company's business growth, and the upgrading of the company's talent strategy; on the other hand, the personnel costs in the same period of the previous year, there are some regions to enjoy local policies to reduce the social security costs, as shown in Table 5.

4. Problems with cost control

4.1 Insufficient investment in R&D

Although BESTORE is branded as a "premium snack", the cost of R&D investment is too low and the allocation of the cost of expensed R&D investment and the cost of purchased intangible assets is not in line with common sense. Although BESTORE has achieved some success in product development in recent years, the amount of R&D investment is insufficient and the percentage of R&D investment in the main business has decreased compared to previous years, which means that there is a clear lack of R&D investment.

4.2 Insufficient monitoring of suppliers

BESTORE is a retailer of casual foods and most of its products are produced using the OEM model^[3]. The OEM approach reduces the company's involvement in the production of its products. This method of OEM reduces the company's involvement in the production of goods to a certain extent, and at the same time increases the cost of returns due to the lack of supervision. Although a quality monitoring system is in place between the company and its suppliers, it does not prevent problems with the quality of the products.

4.3 High selling expenses

In recent years, BESTORE has been selling through a combination of online and offline channels, forming a sales pattern that is "constantly close to the terminal, providing services anywhere, anytime". Although the large investment in endorsement and advertising costs can increase the company's popularity, excessive investment can put financial pressure on the company.

4.4 After-sales service needs to be improved

After-sales service is an important part of sales and affects the after-sales cost of the company^[4]. The after-sales service is an important part of sales and affects the after-sales cost of the company. High-quality, high-quality after-sales service can to a certain extent enhance the company's reputation and reputation, and can to a certain extent increase the goodwill of the relevant consumers. By browsing through the reviews of the BESTORE online shop, it is evident that many products have bad reviews underneath. The reasons for the bad reviews are various, such as the date not being fresh enough, the packaging being damaged, the product not tasting as expected, the product being sent and missed by mistake, etc. All these factors can lead to a decrease in customer satisfaction and increase the company's after-sales costs.

5. Optimisation of cost control measures

5.1 Increase investment in research and development

BESTORE has to improve the relevant R&D system mechanisms and enhance the company's R&D capabilities and levels. First of all, the company needs to improve the R&D management system^[5]. The

production market life of casual food products is short, so the company needs to keep up with the direction of market changes, anticipate market growth and trends, and promote product development and sales as soon as possible. At present, the production process of BESTORE is mainly done by entrusted suppliers, while the design of product packaging is its own responsibility. The company needs to improve the cooperation mechanism with its suppliers and establish a modern cooperation system from product development, packaging design, mass production to terminal sales. At the same time, it needs to increase supervision of production as well as distribution so that suppliers become an important part of the company's leisure food industry chain and strengthen all-round quality supervision. Secondly, the company needs to continuously improve its R&D strength. The company also needs to increase investment in research and development and introduce high-calibre technical staff to improve the company's research and development strength and level. Nowadays, there are more and more casual food companies with low product innovation rate and serious homogenisation. Through demonstration, the overall level of the industry will be driven to improve, and healthy competition in the casual food industry will be achieved through product innovation.

5.2 Strengthen the management of procurement costs

BESTORE needs to improve its supplier management practices. BESTORE can use a combination of daily supervision and occasional spot checks to monitor suppliers. At the same time, if any unqualified or non-compliant products are found during the supervision process, mandatory rectification measures need to be taken to improve the efficiency of quality supervision of suppliers. Secondly, companies need to conduct quarterly as well as annual assessments of their suppliers. At the same time, before cooperating with new suppliers, enterprises need to carry out comprehensive analysis and testing of suppliers, and only after passing the test can they cooperate with them; finally, the products produced by suppliers should be inspected in storage, and the products should be strictly supervised to improve the quality of the products.

In addition, BESTORE needs to make reasonable use of the advantages of scale, enhance communication and interaction with suppliers, and gradually improve the bargaining power of the products, which can be very effective and useful in controlling the cost of procurement. At the same time, companies can also reduce their procurement costs through a policy of reciprocity with their suppliers, and when working with them, they can discuss the promotion of raw materials for them to increase the visibility of their products, creating a win-win situation for both sides.

5.3 Reasonable control of sales costs

Nowadays, placing advertisements in popular TV dramas and variety shows has become an important way for companies to raise awareness, and BESTORE has invested a lot of money in film and TV advertising. In terms of celebrity endorsements, BESTORE has hired a number of high volume celebrities as spokespersons. The company says that 70% of the current casual food consumer base is young, and raising awareness can bring more sticky customers to the company. Although investing heavily in advertising can increase the company's awareness and attract more consumers, it also increases the cost burden for the company. The company should appropriately reduce the investment in sales expenses and allocate the company's various expenditures in a reasonable manner.

5.4 Reduce the cost of returning goods

After-sales service is one of the representatives of corporate image, improving the quality of after-sales service can enhance the goodwill of consumers towards the brand, and also help to reduce the return cost of the enterprise. With the rapid development of the BESTORE online channel, the volume of online sales is increasing and it is difficult to avoid returns and exchanges when selling online. In the face of various after-sales problems, the relevant staff need to deal with them in a timely and appropriate manner, if not handled properly may lead to an increase in after-sales costs and a decline in customer satisfaction. In this regard, enterprises need to regularly train the relevant staff management, establish after-sales service management system, and improve the overall after-sales quality of the enterprise.

In addition, the development of big data on the internet has provided the technical support for data analysis, so that companies can quickly understand the sales situation of each channel through the network platform, and timely collation and analysis of data, and reasonable adjustment of the product structure. The analysis of after-sales information can reduce the cost of returns and exchanges in some areas.

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