

Study on the External Environment and Countermeasures of China's Dairy Industry—Based on PESTEL Model

Liang Dong

*Accounting, Hebei Finance University, Baoding, China
Liangdongzz0711@163.com*

Abstract: *The dairy industry, which also complements people's livelihood well, is one of the important parts in China's economy. In recent years, along with the rapid ascension of the national economic level, China's dairy industry has achieved high-quality development. However, it is worrying that dairy enterprises are difficult to get rid of the inherent limitations of the industry in the process of operation, which will bring challenges to its development greatly in the future. This paper will start with the basic situation of China's dairy industry, and then use PESTEL model to analyze the external factors related to the development of dairy enterprises. To solve these potential problems comprehensively, some corresponding suggestions will be put forward in the end.*

Keywords: *Dairy Products, PESTEL Model, Macroeconomic Conditions, Key Factors*

1. Introduction

China's dairy industry started relatively late and was from a low starting point. Since the Economic Reform and Opening up, the development of this industry has gradually stepped into the right track. Both the production of dairy products and the demand for milk from residents were increasing rapidly. At the same time, some advanced enterprises broke the regional restrictions on dairy products by improving the level of fresh-keeping technology, extending the shelf life of commodities. As a result, the popularity of dairy products among residents was able to improve significantly.

In recent years, Chinese residents' demand for dairy products has continued to increase, and more attention has been paid to the quality of dairy products. But these enterprises might not be able to fully meet the market demand under the influence of the external environment and its own weaknesses, so it is urgent for them to carry out transformation and upgrading. At present, some enterprises take the lead in changing the breeding mode and other important links, striving to create a modern management form and attaining high-quality development.^[1] Based on the situations above, this paper will focus on analyzing how the macro environment has a positive or negative impact on the development of the dairy industry and put forward targeted improvement suggestions, among which adverse conditions will be avoided as much as possible, while favorable conditions will be fully utilized.

2. Industry Characteristics

2.1. High Dependence on Raw Materials

The distribution of dairy enterprises is relatively centralized, most of which are close to high-quality milk source areas. For one thing, compared with other raw materials required by processing enterprises, raw milk has a short shelf life, so it is easy to deteriorate. For another, the quality of forage affects the taste of dairy products, for which the selection of pastoral areas is particularly notable for dairy products processing. Some leading enterprises, such as Yili and Mengniu, were headquartered in Inner Mongolia Autonomous Region. It is close to China's high-quality pasture - Inner Mongolia pastoral area, providing sufficient and stable milk sources with high nutritional value.

2.2. Multiple Product Types and Fast Update

With the improvement of China's economic level, residents put forward higher requirements in terms

of basic living needs. Consequently, Dairy enterprises provide a variety of dairy products to cater to the public taste. At the same time, as the number of dairy products enterprises has increased for a long time in recent years, the market competition pressure has been much heavier than before. In order to capture the market share, enterprises choose to introduce more kinds of new products continuously, which can fully display their own characteristics so that they can express their competitive advantage.

2.3. Short Storage Time of Products

According to the annual reports of many dairy enterprises, the inventory turnover rate of them remained above 7 in 2022, significantly higher than other industries. This is because there are much beneficial microorganisms needed by human beings in dairy products, which have high requirements for storage temperature, so that the shelf life of these products is relatively short. As a result, it is not recommended to produce too many dairy products at one time, but to produce them in an appropriate amount based on market demand, so as to avoid overstock of inventory and increase cost burden.

2.4. Intense Enterprise Competition

The accumulated wealth of dairy has been on the rise lately, whose high industrial dividend were attracting a large number of entrepreneurs to enter, making many emerging small and medium-sized enterprises emerge into this industry and race to control the remaining market share. However, because these enterprises are likely to do not have high-end technology and adequate financial support, they are at a disadvantage in expanding the size of enterprises, so they can not pose a threat to leading enterprises, but make competition between other similar enterprises fierce increasingly.

3. Industry Development Status Based On PESTEL Model

PESTEL model is an effective tool when it comes to analyzing the macro environment of an industry or company, which mainly includes six factors, namely: political factor, economic factor, social factor, technical factor, environmental factor, and legal factor.^[2] From these six perspectives, we can find out how the current environment affects the development of enterprises or industries, which are conducive to make decisions for them in the next step according to the actual situation.

3.1. Political Factors

First, although the ongoing conflict between Russia and Ukraine has brought some uncertainty to China's economic process, peace and development are still the consensus of most countries in the world, which provides a more stable and secure environment for China's dairy industry. Second, China has an inclusive and open attitude towards product imports. Compared with other importing countries, the import tariff price of dairy products in China continues to decline, so that the price advantage is more obvious, which also poses a certain threat to the domestic dairy industry. Third, local government actively promotes the development of dairy enterprises in the region like establishing specialized product research centers and dairy bases. In addition, many dairy enterprises shoulder their social responsibility and cooperate with the government to create "a student milk plan" to ensure the health of students.

3.2. Economic Factors

With many kinds of industries gradually getting rid of the negative impact of the COVID-19, China's economy has entered the recovery stage and the consumption capacity of residents has been increasing continuously. Small cities and rural areas are going to become emerging markets for dairy products in the future. Taking the dairy industry as an example, many factories are located in the countryside, which have increased local employment and helped the rural revitalization while building a modern industrial system. At the same time, the transportation and packaging industry that are related to the dairy industry have also achieved technically transformation and upgrading, making their further development.

3.3. Social Factors

It's reported that the cognition of Chinese residents on dairy products has significantly improved in recent years. In the meantime, the concept of life has changed that more residents have paid attention to the improvement of personal physical quality.^[3] For example, the popularity rate of dairy products in

cities reaches 95%. Moreover, due to the continuous growth of China's population, milk powder supply has become an important part of the dairy product market, among which the elderly and infants are the main targeted consumer groups.

3.4. Technical Factors

On the one hand, many enterprises have focused on product research and quality upgrading. So that more harmful substances are being removed by improving the production and processing technology than before, which reduces the problem of substandard product quality. And they are also increasing the product category and introducing functional products to meet the actual needs of different consumer groups. On the other hand, with the help of food preservation technology and cold chain technology, they have broken the limitations of space on dairy product transportation and expanded the scope of dairy product sales.

3.5. Environmental Factors

Pastoral areas in China are mainly distributed in northwest China and Qinghai Tibet region. In the last few years, environmental pollution has led to serious grassland desertification and soil erosion, and the available land area also has been shrinking. What's more, some enterprises discharged industrial waste water into rivers along the banks in the old days, causing river water pollution and affecting the quality of pasture. How to relieve environmental pressure becomes a hard nut to crack. Therefore, green development has become the main theme of enterprise development and received great attention.

3.6. Legal Factors

After the dairy product pollution incident in China in 2008, China's legal department established relevant laws on food safety and issued corresponding management regulations in order to aggravate the punishment on illegal enterprises and protect the legitimate rights and interests of consumers. In addition, the Dairy Industry Policy was issued, greatly improving the threshold of the dairy industry and optimizing the market competition environment. The measures above have laid a good legal standard for dairy enterprises.

4. Industry Development Suggestions

Since 2018, the strengths of China's dairy enterprises have enhanced unceasingly. Today, this industry occupies a place in the world dairy market and becomes an important part of high-quality dairy products' supply among all countries, but there are also some development challenges in the related areas. The following are the development suggestions for the existing problems.

4.1. Strengthen Brand Image and Expand Overseas Markets

In the face of a variety of dairy products in the market, it is unlikely to retain consumers for a long time only depending on the taste of the product itself. It requires the enterprises to attract customers in terms of the nutritional value, outer packaging, and other external aspects of the product, which can together form the brand's specialized advantages. In addition, the overseas market also can be the key target that China's dairy enterprises will vigorously develop in the future. It is high time that those Enterprises with enough economic strength should reasonably control the publicity funds to help them go abroad and should promote the internationalization strategy. For instance, Mengniu sponsored the FIFA World Cup Qatar 2022 and introduced China's dairy industry to the world, which has earned a lot of attention internationally and improved the brand image successfully.

4.2. Pay Attention to Technological Innovation and Meet Personalized Needs

Recently, it is apparent that the demand for dairy products in the domestic market has increased in succession and the scale of target population has expanded continuously, pursuing the diversification and personalization of goods, which brings good opportunity for China's dairy industry. Therefore, they can conduct market research to the public, increase investment in product innovation after understanding consumers' preferences and build exclusive technology R&D centers, which will provide appropriate products for different groups and seize the emerging market that has not yet been finalized. But at the

same time it is also necessary to take ensuring product quality as the primary standard and strictly control every process on the production line, so that it can be avoided to make the similar industry's dishonesty recurring due to poor product quality.

4.3. Carry Out the Construction of Milk Source Base and Establish a Modern Industrial System

In order to find a development path that is suitable for the coexistence between these industrial enterprises and the environment, some enterprises have moved their breeding bases and processing plants to villages with good ecological environment for the sake of avoiding bad influence on milk resource, which was caused by the aggravation of environmental pollution in pastoral areas. Product quality is the most important factor affecting consumers' choices. Consequently, dairy enterprises should take advantage of rural resources and environmental advantages to improve the quality of milk. And then, they can further promote cow breeding and production management by technological innovation means to achieve scale and systematization, and lastly build a relatively complete industrial chain. It will be an effective method to reduce production processing costs and finally set up the operation system of the whole industry automation.

5. Conclusions

To sum up, this paper briefly summarizes the industry characteristics according to the development process of China's dairy industry as a start, analyzes the macro environment of China's dairy industry from six perspectives based on the PESTEL model, and finally puts forward some concrete and feasible suggestions from the corporate governance's point of view. In every industry, whether it is a leading enterprise developing rapidly at present or an emerging enterprise expected to be among the top in the future, it is virtually impossible to break away from the current environment and achieve long-term development only based on its own business strategy. China's dairy industry, which had arose on the basis of its unique geographical advantages, was pushed into a low ebb due to its lack of attention to product quality in those days. Now it coincides with the most favorable opportunity after the epidemic, but it is also accompanied by unknown challenges to overcome. However, nothing can last forever. How to successfully cope with the impact of each change in the external environment is a topic that every enterprise should deeply learn in the process of moving forward.

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