

Problems and Countermeasures of the Profit Model of Sanquan Food

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Abstract: In the fierce competition of the past few years, the profit model of the frozen food industry has shortcomings, with declining profitability. The profit model urgently needs to be optimized to expand profits and maintain the long development of the enterprise. This article takes Sanquan Food as a typical example and studies the profit model of Sanquan Food based on a review of domestic and foreign literature and related concepts. This article starts from the five components of the profit model and, based on the financial data of Sanquan Food from 2018 to 2022, conducts a financial analysis of each component of its profit model. According to analysis, it was found that the profit model of Sanquan Food has a serious homogenization of profit points, mainly concentrated in traditional rice and noodle products; The source of profit is single, with the main revenue being distributed by major offline retail supermarkets; The cost of various expenses has sharply increased, and the proportion of expenses such as raw materials and transportation has increased; At the same time, the cost of profit leverage is high. Based on a comprehensive analysis of the company's financial situation, suggestions were made to address the issue, suggesting that Sanquan Food actively develop new products and seek new profit growth points; Enriching business methods to create profit sources; Controlling costs and utilizing profit leverage to increase profits; Expand customers and improve customer loyalty; Innovate marketing methods, expand sales channels, improve logistics and transportation systems, and strengthen core competitiveness.

Keywords: Profit Model; Financial Analysis; Competitive Advantage

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1. Introduction

In recent years, due to changes in market demand, the food industry has expanded rapidly. In 2019, under the impact of the COVID-19 pandemic, the development and difficulties of the food industry and the scale and speed of the logistics industry are obvious to all. As a quick-freezing industry, Sanquan enterprises face both opportunities and challenges under the premise of the epidemic. It is very important to use the current situation of the enterprise, the market development environment, etc. to adjust its own management mode, profit model, capital utilization, etc., use new and old customers to successfully realize it, and rely on its own brand benefits to improve competitive advantage. For Sanquan, the improvement of the logistics system, the improvement of financing capacity, and the strengthening of the supply chain are very important to create a profit model suitable for itself.

In the past period of time, most enterprises only care about their own profits, that is, they blindly pursue to make money, and

their development momentum is insufficient. The most intuitive manifestation of the profit model is to make a profit and make a profit. The analysis of the profit model can be analyzed through profit sources, profit leverage and other components. There is still a gap between the commodity supply and the innovative supply of Sanquan Food, and the problems of low profits and high costs need to be solved urgently. This article takes Sanquan Food as the research object, analyzes the elements of its profit model, conducts financial analysis of its factors, studies the profit model of Sanquan Food, analyzes the obstacles that affect its business development, explores the problems and shortcomings of its profit model, puts forward relevant suggestions and solutions to promote its own development and profit. Good profit model to maintain competitive advantage.

2. Analysis of the Current Situation of the Profit Model of Sanquan Food

2.1 Analysis of the factors of Sanquan Food's profit model

2.1.1 Profit point

The profit point is the value provided by the enterprise's products and services to consumers. In this industry, the value of Sanquan Food is as follows.

Table 2-1 Table of the proportion of operating income of each part of Sanquan Food in 2022 (unit: 100 million yuan)

Product type	Rice noodle products	Quick-frozen modulation products	Refrigeration and short-term warranty
Sum of money	64.38	8.38	1.04
Proportion (%)	87	11.27	1.23

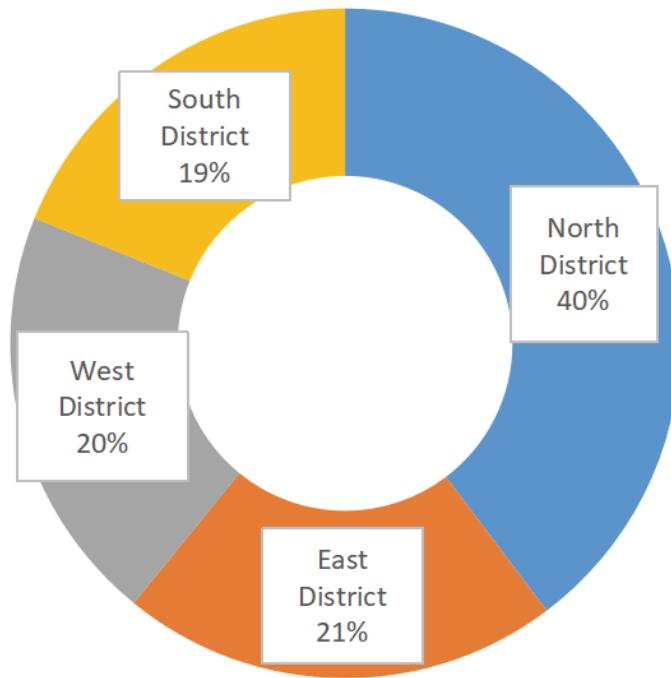
Source: Sanquan Food's 2022 Annual Report

Analyzing the relevant data of Sanquan Food, it can be seen that Sanquan Food's main business has always been concentrated on noodle and rice products, followed by quick-frozen prepared products. The difference between the two data is quite different, accounting for 87% and 11.27% respectively, and the proportion of refrigeration and short-term insurance is only 1.23%. Among them, noodles and rice products are favored by consumers, the three traditional foods of dumplings, dumplings and dumplings, reaching 4.378 billion yuan in 2022, accounting for the highest proportion of operating income. It is not difficult to see that Sanquan Food has always taken traditional noodle and rice products as a development feature and the company's positioning. At the same time, Sanquan mainly promotes the sales of noodles and rice products with high gross margins through seasonal restrictions and other marketing methods. Related products continue to extend from basic to high-end, and launches children's series of dumplings, high-end squid dumplings and other products. With the improvement of our logistics cold chain system, the fast-paced life of residents, many consumers favor instant food products, coupled with the dietary effect brought about by the epidemic, Sanquan Food grasps the continuous development of profit points, creates more products and services, seizes and traps the stomachs of consumers, and constantly improves operating income.

2.1.2 Profit object

The consumption of Sanquan food has been increasing in recent years, and different consumer groups have gradually formed. Consumers in various industries and regions are complicated. Among them, the northern region has formed a large consumer market, Beijing, Henan and other places are mature business areas, and Shandong and other places are also becoming potential areas. Because Sanquan Food is a fortune in Henan, consumers have better viscosity. Moreover, Henan is a large agricultural province in China. It is a high-quality wheat processing site, and it also provides high-quality raw materials for the large-scale development of quick-frozen products. Beijing and other first-tier cities have a fast pace of life. Choosing simple and fast frozen food has become the first choice for most working people, fast-paced families, etc. Choosing frozen food that can satisfy hunger and nutrition has become the main theme of such people. At the same time, in order to attract more young people and middle and high-end people, Sanquan Food is also expanding the research and development of Italian breakfast, and actively launching co-branded products with Mixue Ice City, Wal-Mart and other brands. In general, Sanquan Food has been developing new consumer groups on the basis of maintaining existing customers.

Table 2-2 The proportion of operating income in Sanquan Food area in 2022



Source: Sanquan Food's 2022 Annual Report

2.1.3 Source of profit

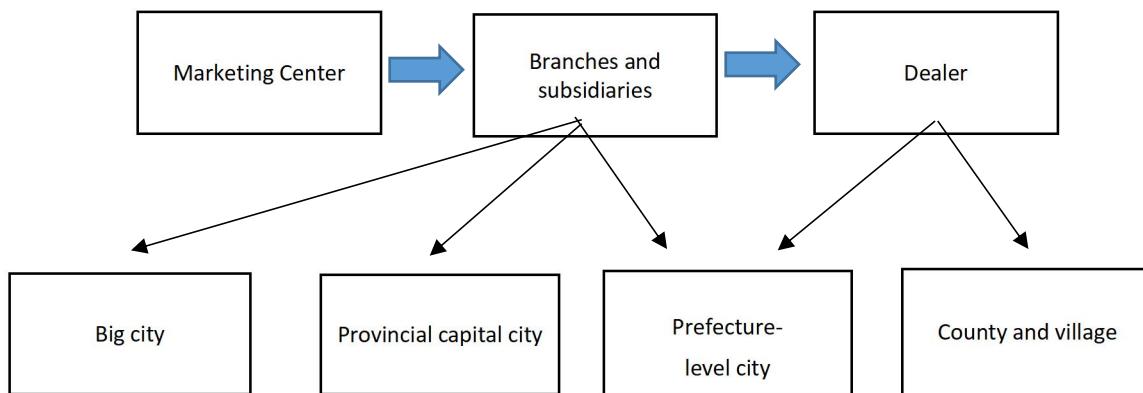
The source of profit refers to the channels and means for enterprises to obtain income. The sales profit of Sanquan Food is mainly offline, but also includes a small number of online business. Affected by its cold chain transportation costs, online sales time costs, etc., Sanquan Food has always focused on offline operating income, accounting for more than 90%. Offline sales are mainly distributed by retailers, agricultural wholesalers, and hotel catering mainly in supermarkets, accounting for more than 70%, and the proportion of cooperation with large supermarkets and large customers is about 20%. Online sales are divided into five parts. One is to rely on e-commerce platforms mainly on JD.com and Tmall, the second is to rely on TikTok Kuaishou's live e-commerce, the third is fresh e-commerce, the fourth is the e-commerce community, Meituan preferential, etc., and the fifth is a small number of store-to-home e-commerce services. Driven by the epidemic in 2019-2020 and the wave of customers' online consumption, the profit source of Sanquan Food has expanded. With a perfect cold chain transportation system, Sanquan Food can fully and efficiently realize cargo transportation, and its contribution to enterprise profits is higher than in previous years.

2.1.4 Profit leverage

Sanquan Food has taken a series of specific measures to drive profit growth, including improving the cold chain transportation system, adopting comprehensive marketing methods, strengthening food safety supervision, etc. to maintain its competitive advantage. In terms of warehousing and transportation, quick-frozen food is very demanding on temperature and other conditions in the process of transportation and warehousing. Both online and offline sales have high requirements for logistics and transportation. In today's increasingly perfect food safety system^[1], Sanquan Food has been monitoring and supervising in real time to ensure quality and safety, and quality is guaranteed. For the factory inspection of products, precision analytical instruments are also used for safety testing. During transportation and terminal storage, Sanquan Food conducts technical tracking and uses electronic labels, temperature alarms, etc. to strictly monitor the temperature.

In terms of marketing channels, Sanquan Food's subsidiaries and branches cover provinces, cities and counties across the country. In the long-term development, it has formed its own unique channel model. The marketing center manages and analyzes, controls subsidiaries, subsidiaries and branches, and then controls distributors. Marketing centers, subsidiaries, branches and dealers will then manage big cities, provincial capital cities, prefecture-level cities, counties and townships respectively, as shown in Figure 3-2.

Table2-3 Structure diagram of Sanquan food marketing channels



Source: Sanquan Food Comprehensive Management Department

3.Financial Analysis of Sanquan Food Profit Model

3.1 Specific financial analysis of the elements of Sanquan Food's profit model

3.1.1 Financial analysis of profit points

In the analysis of the profit points of Sanquan Food, it is mainly analyzed from the proportion of product operating income. Sanquan Food has long been focusing on quick-frozen and refrigerated rice products, including traditional products such as dumplings and dumplings. Next, there are also quick-frozen and refrigerated food, including prefabricated ingredients, prefabricated dishes and meals, shabu-shabu, microwave series, air fryer series and other products. Sanquan Food selects raw materials, selects high-end ingredients, improves food taste, and innovates product packaging. It has created a series of high-quality products of Sanquan fresh food "raw" mainly in the categories of dumplings, wontons and steamed buns, which have been recognized by consumers. Focusing on the characteristics of fashionable and convenient products, it has successively launched air fried Pot series products and microwave series products create a good consumption experience for young consumers.

Table3-1 Analysis of the relevant indicators of Sanquan Food's operating income in 2022

	Proportion (%)	Gross profit margin (%)	Operating income increased or decreased compared with the previous year (%)
I. Quick-frozen rice products	87	30.49	6.73
Dumplings	68	33.25	3.92
Snacks and noodles	19	24.61	13.24
II. Quick-frozen products	11.27	10.42	12.27
New products such as shabu-shabu	11.27	10.42	12.27
III. Refrigeration and short-term warranty	1.73	2.43	-15.36

Source: Sanquan Food's 2022 Annual Report

Table3-2 The level of change in the gross margin of various products of Sanquan Food

product category	2020	2021	2022
I. Quick-frozen rice products	-5.54	-1.93	1.33
Dumplings	-6.01	-0.94	2.04
Snacks and noodles	-4.69	-3.72	0.2
II. Quick-frozen products	2.47	-7.25	-1.51
III. Refrigeration and short-term warranty	14.12	-2.4	-7.70

Source: Sanquan Food's 2022 Annual Report

From the annual report data of Sanquan Food, it can be clearly seen that 2020 is the turning point of Sanquan Food. Quick-frozen modified hot pot products and refrigerated short-term warranty products are actively invested in research and developed. Under the background of the epidemic in 2020, it has indeed won the favor of some consumers. The gross profit of refrigerated and short-term fresh products The growth rate increased, while the traditional products declined, and the growth rate of the gross margin of the three major products showed a negative value. However, in general, the income of Sanquan Food still depends on the three traditional products, and has always accounted for a large proportion of revenue. In the later stage of the epidemic, there will be a recovery in 2022, and the gross profit margin will rise in the same period. On the other hand, the gross profit margin of quick-frozen pre-cooked vegetables and short-term insurance products has declined, so the overall income level is also It has a negative impact. Affected by the dividends of the epidemic in 2020, Sanquan Food relies on its own advantages of cold chain warehousing and transportation to double-sided offline and online sales. Sanquan Food can seize the opportunity to develop new products on the market, but it is only a short-lived “flipping”.

3.1.2 Financial analysis of profit sources

The sales of Sanquan Food are mainly online sales and offline sales, among which offline sales include distribution and direct sales. Sanquan Food has many branches and subsidiaries, and the dealer model has built sales channels and networks covering all provinces, cities and counties across the country to ensure that products can be promoted to markets all over the country. Let's analyze from various sources of profit.

From the analysis of the profit source of Sanquan Food, the total revenue of Sanquan Food is divided by 2020. The operating income of online sales in 2020 increased by 204.55% compared with 2019. After the epidemic, the recovery is still dominated by offline sales. In general, offline distribution has maintained a large proportion. In 2022 The offline distribution revenue of Sanquan Food reached 5.644 billion yuan, an increase of 10.15% year-on-year. In recent years, Sanquan Food has followed the development of the social market and expanded online sales while maintaining the traditional sales mode. In recent years, it has made progress. Through online and offline synchronous unified layout and sales, consumers increasingly choose emerging forms of consumption such as mobile phone ordering and community group purchase. Coupled with the after-equelae of the epidemic, consumers' willingness to hoard has increased, which accelerates the sinking of the online sales market, expands the sales scale of Sanquan Food, and increases the proportion of online revenue.

3.1.3 Financial analysis of profit leverage

Profit leverage reflects a series of relevant measures to drive profit growth and maintain one's competitive advantage[8]. With the continuous expansion of the scale of Sanquan Food, the cost of each period has also changed. Between 2018 and 2022, with the continuous expansion of Sanquan Food throughout the country, more facilities are needed, the cost continues to increase, and the management cost of Sanquan Food continues to rise. Sales expenses and financial expenses show a downward trend. In 2019, R&D expenses rose by 151.24% year-on-year, and in 2022, R&D expenses decreased by 15.60% year-on-year. R&D expenses fluctuated greatly, while sales expenses have been on a downward trend in the past five years. Because the large investment in early sales expenses led to the slowdown of the current marketing strategy, phase Guan's internal marketing layout has been saturated. Therefore, the marketing of Sanquan Food has not been one of the levers to leverage profits in the past two years.

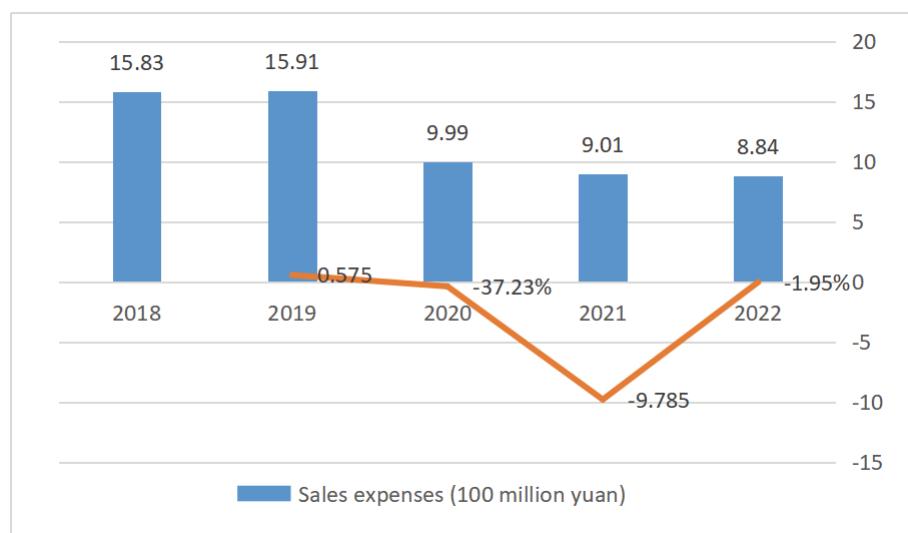
Table3-3 Composition of Sanquan Food's operating expenses (unit: 100 million yuan)

Types of expenses	2019	2020	2021	2022	2023
Management expenses	2.20	2.34	1.97	2.18	0.77
Sales expenses	15.91	9.99	9.01	8.84	3.97
Research and development expenses	0.47	0.48	0.55	0.46	2.55
Financial expenses	-0.11	-0.65	-0.09	-1.25	-0.12

Data Source: Sanquan Food 2019-2023 Annual Report

Sanquan Food's sales expenses have steadily declined in recent years, with the largest decline in sales expenses in 2020, mainly due to the slowdown of marketing strategies due to the current situation of "demand explosion" in the market, and the early marketing strategy has achieved good results. However, the decline in the later stage was large, the expansion pace of Sanquan Food slowed down, and the sales enthusiasm was poor. This is closely related to the fact that the company's transformation to high-end requires a large number of talents and technology. The layout of Sanquan's internal marketing strategy should find new breakthroughs on a stable basis to seize sales opportunities. In addition, the R&D expenditure of Sanquan Food tended to stabilize after experiencing a sharp increase in 2019. As a leading enterprise in the quick-frozen food industry, Sanquan Food has always won with three traditional rice noodle products. In the face of strong competitors: Anjing Group, Miss, etc., quick-frozen refrigerated hot pot series, short-term food, etc. have never been able to occupy a place in the market, and sell well in the innovation of traditional products of dumplings and dumplings, such as early dazzling dumplings, children's dumplings, etc.

Table4-4 Sanquan food sales expenses and growth rate in the same period



Data Source: Sanquan Food 2019-2023 Annual Report

4. Problems in the Profit Model of Sanquan Food

4.1 Traditional business is weak, and products are homogenized

From the preliminary data analysis, the main income of Sanquan Food comes from the three traditional businesses of dumplings, dumplings and dumplings. In recent years, the proportion of dumpling business in the overall revenue is shrinking. Under the impact of factors such as the upgrading of customer group consumption and the rise of the takeaway market, the improvement of consumers' food safety and health awareness, more attention is paid to the freshness and quality of food [2]. Today, the rapid development of the three traditional businesses in the quick-freezing industry is obviously weak and lack of motivation. The products launched by Sanquan Food have a high degree of homogeneity. Some emerging pre-made dishes, modified products, etc. lack uniqueness and differentiation, and cannot meet the personalized needs of consumers. The two traditional products of dumplings and dumplings are stuck in the bottleneck of market share. During the epidemic, the growth of public demand also brought about a rebound in sales, and there was a downward trend in the later stage of the epidemic. In addition, the raw material expenditure, management expenses and other expenses of the quick-frozen industry are relatively large. Finally, transportation and logistics rely on cold chains, which is equivalent to raising costs. Coupled with the channel costs invested by manufacturers in supermarkets, the profit margin of quick-frozen food is lower. The cost of the profit point has been high for a long time, so the gross margin of sales has been low. It can be seen that the traditional business of Sanquan Food is weak, and it is urgent to overcome to find new profit points on the basis of cost control.

4.2 The cost of enterprise development strategy is high.

Through the above financial analysis of the profit leverage of Sanquan Food, it can be seen that the management and sales

expenses of Sanquan Food are relatively high. Among them, the management expenses increased year by year with the expansion of the enterprise's production scale, reaching 234 million yuan in 2020, and the sales expenses also reached 1.591 billion yuan in 2019, which reflects the large amount of expenses incurred by Yonghui Supermarket in the process of profit leverage adjustment, such as advertising expenses invested in publicity, before In the past two years, it has frequently appeared in major media, as well as promotional offers and other promotional means provided by various platforms, which have affected the profit performance of Sanquan Food^[11]. Sanquan Food is an enterprise that mainly produces and sells frozen food. In terms of inventory management, Sanquan Food requires the adoption of an advanced logistics and warehousing management system to ensure the safety, quality and validity of the products. Moreover, Sanquan Food has been in the expansion stage. Although it has slowed down in the past two years, it has generated infrastructure, personnel remuneration and other expenditures, thus consuming a large amount of costs and increasing the relevant period expenses. Therefore, Sanquan Food's profit leverage cost problem hinders its development and expansion^[12].

5. Suggestions for Optimizing the Profit Model of Sanquan Food

5.1 Control costs and accurately locate

Sanquan Food should greatly reduce costs, improve the capital supply chain, and realize the efficient capital turnover cycle^[3]. Sanquan's costs have been rising in recent years, and it has been in a high position in the same industry. In the future, the raw materials and manpower costs of the quick-freezing industry will rise. Therefore, Sanquan should improve its core competitiveness through material procurement management and the production of diversified quick-frozen finished semi-finished products at the same time. Sanquan Food should use its expanding strategic activities to expand the economy of scale and reduce transaction costs. In addition, on the basis of certain management ability, coordination ability and operation ability, the layout of the whole industrial chain should be carried out, market demand should be examined in product research and development^[9], and the waste of funds and resources caused by decision-making errors should be avoided in store layout, while maintaining the connection between existing industrial chains. With the deepening of Internet technology, the continuous expansion of e-commerce^[4], and the development of online sales. In the marketing process, we can appropriately reduce commercial expenses, use more funds to arrange online business, continue to strengthen business cooperation with some fresh e-commerce, and establish a supply chain management system to ensure the accurate and timely supply of raw materials, so as to create maximum value with less capital.

5.2 Find new profit growth points

Under the current situation of homogenization in the quick-freezing industry, Sanquan Food should formulate clear strategic goals, form a differentiated brand strategy, create a unique brand effect, and control the cost of profit points in the process^[10]. According to the profit weight of the main business^[5], under the maintenance of its own advantages, Sanquan Food should continue to subdivide new consumption categories, carry out new product development and traditional product upgrading according to the subdivision and classification of consumer demand, and continue to strengthen its own brand, innovate and develop popular products, and pay attention to market change and other hot issues. Upgrade and improve. For example, in order to meet the dietary needs of more and more consumers who tend to eat less oil and salt and reject fried food, promote the greening of products, such as designing low-sugar food for patients with diseases, creating some Internet-famous products, etc., to meet the increasingly personalized needs of consumers. Within the enterprise, it is also necessary to pay attention to the construction of corporate culture, which can directly improve the image of the enterprise. A good working environment is conducive to the enthusiasm and cohesion of employees^[6], thus improving the overall strength of the enterprise. Subdivide the market, market accurately, enhance the flow of people in stores and the love and loyalty of consumers, and achieve new growth in profit points^[7]. In offline operation, we should open up online and offline user feedback channels, formulate a reasonable complaint management system, respond to customer feedback and complaints in a timely manner, and provide compensation. So as to win the favor of more consumers and increase sales.

6. Conclusion

This article takes Sanquan Food as the research object, and uses the five profit model components of profit source, profit

point, profit lever, profit barrier and profit object to study its profit model. It is found that the problems and shortcomings in its profit process are mainly due to serious product homogeneity, insufficient profit source, excessive product cost, and development. Due to the problem of excessive cost, Sanquan should improve sales strategies on the basis of improving capital utilization and controlling costs, actively research and develop differentiated operation of new products, strengthen cooperation with suppliers, expand online sales, and improve their competitive advantages.

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Conflict of Interests

The authors declare that there is no conflict of interest regarding the publication of this paper.

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